

**Subcommittee on Commerce, Manufacturing, and Trade
Energy and Commerce Committee
United States House of Representatives**

**Keystone's Red Tape Anniversary: Five Years of Bureaucratic Delay
and Economic Benefits Denied**

**Testimony of
Hon. Karen A. Harbert
President & CEO
Institute for 21st Century Energy
U.S. Chamber of Commerce**

Thursday, September 19, 2013

Summary

Combined, the countries of North America have the largest fossil fuel resource base in the world. Rapid development of Canada's oil sands and a sharp increase in unconventional oil and gas production in the United States, along with production of abundant coal, means the world's energy center of gravity is shifting from the Middle East to North America. Stable, long-term energy supplies from Canada are a critical part of this shift. The construction of TransCanada's Keystone XL pipeline, therefore, will be vital to realizing the economic and energy security benefits of these resources.

The failure of the federal government after five years to grant a construction permit for the Keystone XL pipeline exemplifies perhaps better than anything the challenges of building energy infrastructure in the United States. This failure has not only denied Americans the benefits of the economic shot in the arm this project would provide, it also has tarnished America's image as a "can do" country open to investment, a failure that can be difficult to shake from investors' minds.

Indeed, the Keystone XL delay is a symptom of a much bigger and costly problem. Much of our energy infrastructure is increasingly inadequate to meet current and projected demand. Providing energy is a long and capital-intensive undertaking, and new energy infrastructure projects require long lead times and massive amounts—tens of trillions of dollars over the next few decades—of new investment.

Unfortunately, our energy sector suffers from a lengthy, unpredictable, and needlessly complex regulatory maze that delays, and often halts, the construction of new energy infrastructure. Federal and state siting and permitting reviews and rules are used routinely to block the construction and expansion of needed energy infrastructure.

For example, installation of required transmission infrastructure has not kept pace with investments in new power generation; export terminals for both LNG and coal face lengthy approval processes from multiple agencies; and limitations on access to federal onshore and offshore lands in Alaska is challenging the operating capacity of Trans Alaska Pipeline System. These are just a few examples of the kinds of issues created by our shortsighted and complex permitting and regulatory system.

Approving the Keystone XL pipeline and making energy infrastructure a priority can help put America on a long-term path to a safe, strong, prosperous, and clean energy future. It is more than past time to move forward and grant the Presidential Permit for the northern section of the pipeline and heed this tortures lesson to take a serious look at how our policies and regulations are restricting access to abundant energy resources and returning investments in needed energy infrastructure.

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Thank you, Chairman Terry, Ranking Member Schakowsky, and members of the Committee. I am Karen Harbert, president and CEO of the Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and dedicated to promoting, protecting, and defending America's free enterprise system.

The mission of the Institute is to unify policymakers, regulators, business leaders, and the American public behind a common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Committee, this Congress as a whole, and the administration.

Introduction: The Strategic Context

Through the application of new technologies, the United States is moving from an era of energy resource scarcity to one marked by energy abundance. Indeed, the core assumption underlying our energy policy—scarcity—is no longer valid. North America has the largest fossil fuel resource base in the world. Yet, America's energy policy is still based on the assumption that we are an energy poor nation, subject to the whims of the world's energy exporters. In short, our energy policy and regulations have either not caught up with our new energy reality or are simply ignoring the remarkable paradigm shift. The first is solvable, the latter is damaging to our economy and to our energy security.

The rapid change in U.S. energy fortunes has caught many analysts and policymakers by surprise. Many experts now believe energy self reliance for North America, if not for the United

States, actually may be within reach in the coming decade. Simply put: the world's energy center of gravity is shifting from the Middle East to North America.

America needs sustained economic growth. The economy continues to expand at a slow pace and unemployment remains stubbornly high. North America's abundant energy resources provide a readily-available mechanism to ensure affordable energy, grow our economy, create millions of well-paying jobs, and strengthen our nation's long-term energy security. We have the largest stimulus package available to our economy in the form of energy and this economic injection is not one that is borne by the American taxpayer.

In addition to very large crude oil resources in the United States, Canada – our largest and most reliable trading partner – is developing a significant oil sands resource in Alberta.

In 2002, North American proved reserves accounted for about 5% of the world total. The following year, the addition of 175 billion barrels of oil from Canada's oil sands to proved reserves boosted North America's reserves to 215 billion barrels and its share of proved global reserves to 18%. In a recent report,¹ EIA estimates that in 2013—10 years later—technically recoverable resources of unproved conventional and shale oil resources could be as high as 594 billion barrels, triple the 2003 estimate. Rapidly improving technology could send this estimate even higher. When combined with the estimated 2 trillion barrels of U.S. oil shale and oil sand resources, North America's crude oil resource is greater than the amount of proved conventional reserves in the rest of the world today. The region can be an energy superpower if we let it.

According to the Energy Information Administration (EIA), petroleum fuels will remain the largest energy source worldwide for decades into the future. As the global economy recovers and developing economies continue to rapidly expand, demand for energy will increase by as much as 56% by 2040 and competition for petroleum and all forms of energy will increase throughout the world. As a result, increasing US imports from Canada will further displace overseas imports and have tremendous economic and national security benefits.

Canada has doubled its oil production over the last two decades, and sends almost all of its oil exports to the United States (though with new outlets for Canadian crude oil in the works, that will change). Production from the Alberta oil sands can increase from the current 1.4 million barrels per day (MMbbl/d) to more than 3.5 MMbbl/d by 2025, and some estimates are higher still. This represents crude oil that we will not need to import from OPEC nations.

Canada is an important and reliable trading partner and is by far the largest supplier of oil and natural gas to the United States, supplying 16% of U.S. petroleum consumption needs and 28% of U.S. petroleum imports. Stable, long-term energy supplies from Canada are critical

¹ EIA. 2013. *Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States*. Available at: <http://www.eia.gov/analysis/studies/worldshalegas/>.

to U.S. energy security at a time when global supplies are often found in geopolitically unstable regions of the world, and production from once-reliable sources is slowing.

The Institute's *Index of U.S. Energy Security Risk* shows how increases in energy supplies from reliable trading countries such as Canada can lower energy security risks. Therefore, the construction of TransCanada's Keystone XL pipeline will be vital to lowering our energy security risk while also realizing the economic and energy security benefits of Canadian and U.S. resources.

Keystone XL

We believe it is clearly in the national interest that TransCanada's Keystone XL (KXL) pipeline project proceeds. TransCanada's Keystone XL pipeline is a \$7 billion pipeline expansion project that would increase the existing Keystone Pipeline system that connects Canada's 175 billion barrel oil sands resource to U.S. refining centers from a capacity of 591,000 bbl/d to more than 1.1 MMbbl/d.

The economic impact and long term benefits of the construction of the KXL pipeline are significant and vitally important to American jobs and our economy, especially during this time of sluggish economic growth. An economic analysis of the project by the Canadian Energy Research Institute (CERI) found that construction and operation of the pipeline could generate as many as 25,000 jobs within five years and more than 116,000 jobs after 25 years.²

Keystone also will enhance an already deep trading relationship. It is estimated that for every \$1.00 spent to buy oil from Canada, \$0.90 is returned in the purchase of U.S. goods or services. The development of Canadian oil sands resources already supports tens of thousands of American workers in hundreds of companies spread throughout the United States who are supplying goods and services to oil sands developers. The approval of the Keystone XL pipeline will help allow for the continued growth in development of the oil sands and an increased flow of trade between the U.S. and Canada.

Once the pipeline is built, TransCanada will become one of the single largest property taxpayers in Montana, South Dakota, and Nebraska. During the operating life of the entire pipeline (including the Gulf Coast section nearing completion), TransCanada will pay \$5.2 billion in property taxes to state and local communities. This revenue will help support key local services like schools, fire and police services, and needed projects like roads, bridges, recreation facilities, and new schools—thus helping create and support additional construction jobs and economic benefits.

In addition to its economic benefits, expansion of the Keystone XL pipeline would enhance U.S. energy security. Linkages to the pipeline system also could enable crude oil

² CERI. 2012. Pacific Access: Part I – Linking oil Sands Supply to New and Existing Markets. Study No. 129 – Part I. Available at: http://www.ceri.ca/images/stories/part_i_-_impacts_of_oil_sands_production_-_final_july_2012.pdf.

production from the Bakken formation and, if they are allowed to be developed, oil shale formations in Wyoming to be transported to refineries in the Gulf region more efficiently.

The failure of the federal government thus far to grant a construction permit for the Keystone XL pipeline exemplifies perhaps better than anything the challenges of building energy infrastructure in the United States.

Today marks the five year anniversary of the date when TransCanada first filed its application to build Keystone. And yet after five years of environmental and other reviews, the portion of the northern section of the pipeline from the Canadian border to Steele City, Nebraska, is still awaiting presidential approval. Some have called this the most studied piece of US infrastructure ever. The Prime Minister of Canada called the project a “no-brainer.” And leaders, investors and markets have been watching. This failure has tarnished America’s image as a “can do” country open to investment, a failure that can be difficult to shake from investors’ minds.

Also, while the Keystone XL proposal has been under consideration and delayed, Canadian oil sands developers have been looking to countries other than the U.S, such as China and India, as markets for oil sands crude. Proposals have been developed and accelerated to build pipelines that would stay within Canadian borders, running west from Alberta to the Pacific Coast and move crude to markets in the East.

Finally, during these five years, America has been sending billions overseas to purchase oil from places that are not our allies. It just doesn’t make sense.

Infrastructure Challenge—It’s About More than Keystone XL

The Keystone XL delay is a symptom of a much bigger and costly problem.

Much of our energy infrastructure is increasingly inadequate to meet current and projected demand. Providing energy is a long and capital-intensive undertaking, and new energy infrastructure projects require long lead times and massive amounts—tens of trillions of dollars over the next few decades—of new investment. Some of that investment and the jobs that go with it will never happen or go elsewhere if the regulatory environment under which companies operate is unreliable and inefficient. Regulatory predictability allows business to plan and invest with greater confidence.

Unfortunately, our energy sector suffers from a lengthy, unpredictable, and needlessly complex regulatory maze that delays, and often halts, the construction of new energy infrastructure. Federal and state environmental statutes such as National Environmental Policy Act, state siting and permitting rules, and a “build absolutely nothing anywhere near anything”—BANANA—mentality routinely are used to block the construction and expansion of everything from transmission lines to power plants to pipelines. And just because a project is

“green” does not mean it fares any better. It has become too easy for energy projects of any hue to be wrapped up in “green tape.”

It is useful to remember that the Hoover Dam was built in five years, the Empire State Building in one and the New Jersey Turnpike in four years. Now it takes an average of over three years just to complete an Environmental Impact Statement. The loss of investment and economic productivity can be quite substantial.

Transmission: Investments in expanding the capacity of the electricity transmission system, for example, have not kept pace with investments in new power generation. As a result, the system is not capable of meeting the demands placed on it, and almost daily transmission constraints or “bottlenecks” create congestion that increases electricity costs to consumers and the risk of blackouts.

Many transmission projects, however, are being held up due to broken permitting processes, excessive judicial challenges, and “Not in my backyard”—NIMBY—activism. In addition to the impact on grid reliability, delays have a direct economic cost potentially in the tens of billions of dollars.

Expanding Coal Export Facilities: Coal has earned a place as an essential part of a diverse and reliable U.S. energy mix, and there is no denying that coal has been among our most affordable fuels. Today, however, coal faces significant and growing regulatory challenges. A flood of new air pollution and greenhouse gas regulations combined with an abundance of cheap natural gas are putting tremendous pressure on coal, lowering its domestic demand.

Coal exports have been increasing rapidly, and EIA forecasts the US will become a large exporter of coal, sending on average about 125 million short tons of coal overseas annually. But that cannot happen without expanded port facilities.

Three facilities on the west coast are in line to be expanded, but delays in approving these activities are likely. It is important that regulators ensure that port facilities are able to accommodate higher coal exports, which would be a boon to the U.S. balance of trade while also keeping U.S. coal miners employed.

Access: All the benefits of greater oil and gas production will be at risk, however, if these resources cannot be tapped further and delivered to where they are needed. With 85% of federal onshore and offshore areas unavailable, access to resources on public lands remains a key concern. These restrictions amount to a huge lost economic opportunity. Wood Mackenzie found that “policies that increase access to currently undeveloped regions have the largest potential to create jobs in the U.S.,” which the firm estimates could result in 690,000 new jobs by 2030.³

³ Wood Mackenzie. 2011. *U.S. Supply Forecast and Potential Jobs and Economic Impacts (2012-2030)*. Available at: http://www.api.org/~media/Files/Policy/Jobs/API-US_Supply_Economic_Forecast.pdf.

Data compiled in a Congressional Research Service report,⁴ however, show that all of the increase in domestic crude oil and natural gas occurring from fiscal years 2007 to 2012 took place on non-federal lands. While oil and natural gas output on federal lands was declining 4% and 33%, respectively, output on non-federal lands jumped 35% and 20%. Not only are fewer federal lands being opened up for production, but the time it takes to process permits to drill has risen from 218 days in 2006 to 307 days in 2011, largely because of the greater time it takes industry to comply with an increasingly complex process.

Preserving Existing Infrastructure—Trans-Alaska Pipeline System: Lack of access to oil resources could threaten existing infrastructure. The Trans-Alaska Pipeline System (TAPS) was designed for a throughput of 2.1 MMBbl/d of crude oil from Alaska’s North Slope to ports in the south of the state. EIA now projects pipeline flows will fall below 400,000 bbl/d by 2024. The pipeline’s operator, Alyeska, has reported that throughput below 550,000 bbl/d makes pipeline operations much more difficult and complicated. If Alaskan output is allowed to decline much further, it could threaten the continued viability of TAPS, which, by law, must be dismantled if it cannot operate.

With greater Alaskan production, this risk can be avoided for decades. The problem in Alaska is not a lack of oil resources, the problem is a lack of access. The Arctic is a region potentially rich in crude oil resources. In 2008, the U.S. Geological Survey published its assessment of undiscovered technically recoverable reserves of crude oil in the Arctic. Its mean estimate for crude oil reserves in the Arctic was 90 billion barrels, about one-third of which are thought to be in Arctic Alaska. And yet the Administration has been resistant to the State of Alaska’s attempts to merely quantify the amount of resources that it has.

Conclusion

The Keystone XL pipeline has called attention to a much larger problem in America. The good news is that over the last five years the world’s energy center of gravity has shifted closer to North America. The alarming news is that our energy policy has lagged far behind this reality and is now standing squarely in the way of the realizing a more competitive and secure energy future for America. The question is on the table: “Is America open for business?”

As a nation, we have been blessed with abundant natural resources and a great capacity for technological innovation. Fulfilling America’s energy potential requires strategic thinking underpinned by durable policy. For too long, our approach to energy has been conflicted, contradictory, and myopic. The extraordinary opportunities being created in U.S. energy today have come about despite government policy, not because of it. That has to change if we are to energize the economy and put people back to work, and that means approving needed energy infrastructure, like the Keystone XL pipeline, in a timely manner.

⁴ CRS. 2013. *U.S. Crude Oil and Natural Gas Production in Federal and Non-Federal Areas*. Available at: <http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/20130228CRSreport.pdf>.

If done right, energy can be a potent driver for our nation's economic recovery. We can choose to seize the new opportunities being created across America's energy landscape or simply cede these potential advantages to other countries.

The Energy Institute believes that by unleashing the power of free markets to create a competitive energy marketplace will stimulate economic activity and create jobs. The majority of the Keystone XL project has been under review for about five years, taking into consideration comments and information collected through multiple hearings, comments periods, and interagency processes. Public citizens, governments, Tribal governments, and non-governmental organizations have all taken part in the review process. Over 70% percent of Americans support this pipeline. There is no doubt the oil sands in Alberta will be developed, the only question is where the oil will go. America has a choice of getting more oil from its trusted ally Canada and in the process increasing revenue and investments in the U.S. or to send more of our hard earned money to unfriendly or unreliable countries.

Approving the Keystone XL pipeline and making energy infrastructure a priority will put America on a long-term path to a safe, strong, prosperous, and clean energy future. It is more than past time to move forward and grant the Presidential Permit to allow the northern section of the pipeline to begin.