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## Discussion Following the Remarks of Mr. Cleland and Mr. Manning

Discussion

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DISCUSSION FOLLOWING THE REMARKS OF  
MR. CLELAND AND MR. MANNING

A CONFERENCE PARTICIPANT: Just quick little points. We often hear that Alberta has more oil than Saudi Arabia. That is a very misleading statement. With so many restraints on emissions at the present time, it is not just CO<sub>2</sub> emissions, which are quite serious. We must factor in the amount of fuel and water required to produce a barrel of oil, the amount of hydrogen required to ensure that process of conversion, and the limitations on North American refineries themselves to use the oil that is produced. So while a vague sort of hypothetical way it may have more oil than Saudi Arabia, in a practical way with the kind of technology we see today and will see in the next few years, I think it is misleading to portray that as truly serious source of future oil. I wanted to throw that out.

You said supply meeting demand is a critical issue requiring policy discussion. While this was a very good presentation, it reminded me of the same arguments I heard during the 1970's after the '73-'74 OPEC crises when all of the discussion was on the supply side. Surely, we have got to do a lot more on the demand side as well. We really have to address the demand issues. I live in a neighborhood in Toronto where I think we are the only family that does not own two SUVs.

Those are real issues, because the climate change issue is a serious issue. I had lunch with the President of what is called the Oceanographic Institute in Woodsaw, Massachusetts recently. He is concerned even about the fact that we think climate change will be slow and incremental over the next 100 years. Climate change can be quite abrupt within a decade or two. His concern is we may be moving into a ice age, the sort that characterized northeastern North America and northern Europe between the early part of the 15<sup>th</sup> century and the early part of the 19<sup>th</sup> century. That was the period when Boston and New York Harbors would freeze over and George Washington would walk across the Delaware River because it was frozen.

I would hope the energy industry would recognize that the demand factor is also a critical factor. We cannot just make these projections based on the assumption the current consumption patterns can continue, but we have to address a demand side and that the environment and these issues have to be built into the equation for future energy policy.

MR. MANNING: Your point is well taken. The advantage of the oil sands is it is synthetic crude. It is actually relatively easy to refine. It does not require a lot of real calibration. The real issue you pointed out, which is processing of that is critically important. One of the advantages of Middle East is that the oil is so very plentiful and is very easy to find. The

technology has evolved, but finding oil and gas in the North American market place requires a lot more technology. That has been the advantage of oil sands. There are no finding cost. It is there. Even though it is cost effective, right now, at current costs, it is using non-renewable resources as well for generating that oil. That is an important qualifier. Mike is going to want to speak about the demand end of it, but I want to have one minute on that as well.

I was a delegate to KYOTO. I went there representing the oil and gas industry of Canada, who were very focused. We are putting in much more efficient engines. We did everything we could mechanically and technologically to reduce CO<sub>2</sub> emissions as an industry, because we knew we were the ones that were most vulnerable. We are the largest emitters of CO<sub>2</sub>.

Within the Keyspan empire we operate out of New York, we are probably one of the greenest utilities in the country because we serve an area that is relatively green. The work we are doing, we have the largest fleets of alternative fuel vehicles. I have to tell you the market place has not yet embraced that. We offer special programs. We have been doing fuel cells since the 1970's. We are one of the largest users of fuel cells in the United States. Again, the economics are not there. We are pushing, but I do have to say that there is a lack of pulling. That is a real issue.

MR. CLELAND: Without saying we need a carbon tax, the most effective way to affect demand for people to see a price that causes them to react. We saw that in the 1970's. You did see a significant departure from patterns of traditional energy use. The difficulty is political. That is true in Canada and the U.S. No government I know of has the courage or will be around very long if it has to significantly whack consumers with higher prices. It is tough.

There are things you can do on the demand side, encouraging with information and various other things like big subsidies. It is expensive and wasteful. It is not very efficient. It is tough. The kinds of decline we have been seeing in energy intensity in the last 10 or 20 years reflect, in part, some of the kinds of efforts that we have been making. I agree with you. I think we need to do more. To agree with you, the point here is not to say forget about the environment and focus on security and the economy. It is to get back to a more balanced perspective. Energy policy has been driven by environment policy in the last 15 years and has not been terribly effective because it is butting up against these other things. We need a more conservative and comprehensive view that deals with, among other things, getting at the climate change issue. I think most people concede it is something we have to deal with.

MS. VERDUM: Emmy Verdum with the Department of Finance in Canada. I too notice the absence of looking at the demand side or how much conservation could help you achieve the fuel security that you are looking at.

One of the things I noticed was that the energy intensity in the EU is so much lower than it is in North America. Perhaps, you could comment on what is behind that difference and if there are any lessons that we can learn in North America? I worked in energy policy in my career. I am certainly familiar with all the difficulties of doing that and certainly, it is an industrialized part of world. It is not China. It is not Brazil. There are lessons that we can learn from the EU apart from changing our geography.

MR. MANNING: I come from New York City, which is a very energy efficient part of the world. We live on top of each other. We all ride the train. Our numbers are pretty good. Toronto managed to get onto the clean cities list by just capturing all the methane off its dumps. We have been doing that for years.

You are right, the European issues are the opportunity because of public transportation and the associated cost. We have a very expensive winter. We have what we would call the sweater response. A lot of sweater conservation, probably four to five percent of our load went down. I think it was just a price sensitivity more than anything. I do not think there is an overall strategy. I think it is price.

MR. CLELAND: It is a number of things. It is density. It is the relative resource intensity, and therefore, inherent energy intensity of the economy. It is availability of energy and price. Those are all things that have helped Europeans over the last several decades. They have a much lower energy intensity. Can we learn from that? It is hard. We cannot make our cities that much more dense. We cannot make them all look like Amsterdam. We can move in those directions. We cannot live up to KYOTO like standards that the Europeans imposed. Because, actually, they did not impose anything on themselves. They just responded to what was already happening.

We can move in that direction and we can move further in the direction of a more demand side management and energy efficiency. To put it in that perspective in the context of security, we are doing quite a bit of work on electricity while in Canada. Say the demand growth for electricity in Canada is probably going to be on the order of 1.3 to 1.5 percent a year, give or take. Our best estimate of the effect of the most robust energy efficiency programs out there from BC hydro and some of the others combined with natural resources Canada Energy Efficiency Programs is they might reduce that to 1.1 to 1.3 percent a year demand growth. One way or another, you still have 10 to 15 percent cumulative demand growth over the decade. That is the security issue. You can push it in that direction, but it is only one of all the strategies you have to use.

A CONFERENCE PARTICIPANT: You mentioned that there are many changes happening in the oil and gas industry, such as changes in the reliability of the sources and even changes in the competition for the sources.

Given that, where is the price heading say in the next five years, in terms of price per gallon of oil?

MR. MANNING: That is a tough question. I think the price of natural gas, because of the environmental requirements, that you cannot burn a lot of other fuels, will be higher than we have seen for the last few years. I have seen five to seven years of a sustained natural gas price, which is probably about where it is now. We do not see it coming off. If there was some dramatic fuel switching because the price of oil has come down, that could mitigate that a bit. I think the North American market place is going to have to get used to a higher price of energy. With oil, it will depend a great deal on OPEC and the outcome of this conflict is very important. One could argue that if there is a level of calm within the Middle East, it will have a negative impact on the price of oil, which may involve more switching. The issue then is going to be environmental standards.

The piece we gave you was a little dissertation on the Clean Air Act as opposed to Clear Skies. Clear Skies has a different approach to environmental standards than the Clean Air Act, which is presently enforced in the United States. You have got an evolving environmental picture in the United States, conflicts with the environmental regulatory picture in Canada, coupled with all the various supply factors. In the end, you are going to see more costly fuel. I think the environment will be a big issue in the 2004 election. I do not think the U.S. leadership can afford to avoid that. It is sort of the sleeping issue. It has been parked the last six months, but it is going to come back.

A CONFERENCE PARTICIPANT: Going back to the threats to reliability. There is almost a child-like brief in the ethics of regulations. When you look back over the last two or three years, you had a huge crisis in California that deeply related to the inefficiency of regulations. The American power generation industry is in deep financial trouble along with the companies. That is directly related to poor regulations in a variety of kinds. We had our difficulties in Ontario. What are the two or three key lessons that you would see drawing from the problems of inter-relationship between the political and regulatory side? What is your outlook for solving these two or three key problems?

MR. MANNING: I am a former Deputy Minister from Alberta. We both put a great deal of our lives into the creation of regulations, many which did not work. On that note, Michael opened our presentation with the Ontario example, which I am sure Mike Cleland would like to address. I think there is no note that the market has tended to be the best mechanism for driving the right kind of technological choices. That happens to be my thing, even though it was seven years of public service. I continue to believe that.

On the environmental side, however, I do think that there is no question that there needs to be clarity of environmental standards. People want

regulation that you can understand like Clear Skies, which creates greater certainty than the Clean Air Act. What they do not like about it is that it forestalls mercury and some other issues. I think there has been a long history of confused regulations. There is a period of uncertainty which is very significant. The lesson we have taken is that uncertainty is bad. You cannot do it any worse than Ontario did it. I know people who lost their jobs. Their jobs were to help Ontario replace some of its aging coal structure, put in some high technical refined cycle plants, and with the right regulatory environment some of those combined plants would have been built. It is not happening.

MR. CLELAND: One, the rush to deregulation in electricity was basically we are going to do it fast. I think that was a mistake. We do not know yet whether deregulation at the retail end really works for electricity. Most consumers do not want to think about. That is probably true for natural gas as well, although not to the same extent. With regulations at the wholesale level, taking it in steps might be a more prudent way to go about it. Having said that, having embarked on the course, jumping halfway across the Grand Canyon, and trying to turn around halfway across is a really bad idea. If you are going to go down that road, you have to keep going down that road. That is where Ontario made the grave mistake. Apart from that, I think we will get back on track. There are some things about the physics of electricity. It is not obvious to me why there is any inherent reason why electricity could not be governed by market rules the same as virtually everything else we buy and sell in this economy.

MS. LIPTON: This is the final question or else we will be chasing this man to Cleveland Hopkins Airport.

A CONFERENCE PARTICIPANT: Last year I had a visiting professor from Oslo who was doing an investigation about energy policy for his country. This year I have a German living with me. Both of them remarked that in the United States, there is a deficiency of mass transit on the demand side.

Secondly, in their countries, electric power lines as a matter of security are underground. Not overhead in the same way that we have them in United States. The Wall Street Journal has talked a lot about the possibility of pipelines in Russia and places like that. I wonder in the world market demand side, if you think those are pipelines or pipe dreams?

MR. MANNING: Pipe dreams. My view is that there is still going to be such a thriving demand for natural gas some of those pipelines will take place. I think part of what will drive it, of course, is LNG technology, because there is a lot of stranded gas. That is why those pipelines will work because you have an abundant source of relatively clean burning fuel, which has no market.

I spent a week in Norway examining that infrastructure. It is very costly to do here; not only to get this stuff installed, but to get at it when there is some sort of problem. We laid the longest underground power line in the United States. Of this newest technology, it is only 27 miles.

Just finishing that last point, the biggest regulatory screw up was California, where they limited the retail price and left the wholesale price open. Of course, as we pointed out in the past, it would be like if England decided to switch the left hand, right hand with other parts in the world. In January they did trucks and February they did cars. We had that great argument for about six months until the FERT decision on El Paso. I do not tell that story anymore. Thank you very much.