

MINUTES
JOINT MEETING

**SENATE RESOURCES & ENVIRONMENT COMMITTEE
HOUSE RESOURCES & CONSERVATION COMMITTEE**

DATE: Monday, February 27, 2012

TIME: 1:30 P.M.

PLACE: WW02

MEMBERS PRESENT: Chairman Pearce, Vice Chairman Bair, Senators Cameron, Siddoway, Brackett, Heider, Tippets, Werk, and Stennett

HOUSE MEMBERS PRESENT: Chairman Stevenson, Vice Chairman Shepherd, Representative(s) Wood (35), Barrett, Moyle, Eskridge, Raybould, Bedke, Andrus, Wood (27), Boyle, Hagedorn, Harwood, Vander Woude, Gibbs, Pence, Higgins, and Lacey

**ABSENT/
EXCUSED:**

NOTE: The sign-in sheet, testimonies, and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

Chairman Pearce called the meeting to order at 1:30 pm. **Chairman Pearce** said Committee Secretary Juanita is recovering nicely from her surgery.

PRESENTATION: Natural Gas-More of the Story. **Chairman Pearce** introduced **Joan Cloonan**, President, Idaho Council on Industry and Environment (ICIE). **Ms. Cloonan** said this is the 23rd Gold Room Workshop. The past topics have been as diverse as recycling, hazardous waste management, access to federal lands and ecosystem management projects. With the recent discovery of natural gas in Southwest Idaho, there have been many discussions on gas drilling and fracking. The presenters are going to focus on infrastructure and policy.

Chairman Pearce introduced **David Hawk**, who spoke on natural gas and supply. See attachment #1. **Mr. Hawk** said 226 million barrels of oil is the amount of energy the world uses in a day. Of that amount, 200 million comes from hydrocarbons. The other 26 million barrels a day come from hydro and nuclear; then wind, geothermal and solar. The percent of energy used in the world today that comes from coal, natural gas and liquid hydrocarbs is 88%.

Mr. Hawk said the world is currently producing about 85 million barrels of oil a day; the world uses about 83 million barrels a day. Of that 85 million barrels of oil, 6 or 7 million are produced in the US. The United States uses 21-22 trillion cubic feet of gas annually. There is about 62 billion cubic feet used a day; and there is 67-69 billion cubic feet being produced in a day. More natural gas is being produced in the US than ever before. In the winter, more gas is used than produced, so gas is stored in the warmer months for use in the winter. More horizontal wells are being drilled than vertical wells.

Mr. Hawk said every shale zone is not the same, the Marcellus shale that is in one county is different geologically from the shale in another county in the same state. The industry must reseed, reforest, re-vegetate, re-cultivate, re-contour and return. There needs to be a scientifically-based strategic plan.

Chairman Pearce introduced **Lynn Dahlberg**, of Williams Northwest Pipeline. See attachment #2. **Ms. Dahlberg** said the United States has as much natural gas as Saudi Arabia has oil. There are 8.5 million 18-wheel trucks in the US that burn 2.5 million barrels of oil a day. If they were converted to natural gas and that oil was no longer purchased from OPEC, that would cause a major global change. The gas that is burned in the West comes from one of four basins: Western Canadian Sedimentary Basin, Rockies, San Juan or Permian Basins. The Northwest Pipeline can bring gas to Idaho from either Canada or the Rockies. The US now has enough natural gas to export; however, Democrat Representative Edward Markey of Massachusetts is proposing to bar the Federal Energy Regulatory Commission from approving export facilities until 2025, in order to keep gas prices low in the US. The Republicans would like to export natural gas in order to reduce the trade deficit and make money. The Canadians would like to be the first to put an export facility on the West Coast.

Ms. Dahlberg said Idaho has 73 delivery points and 0 receipt points. The demand for natural gas increased in Idaho until 2008, when it declined. There are only two coal-fired power plants in the Northwest and both have plans to convert to natural gas. New pipelines have gained capacity, but at the expense of existing pipelines. On a transmission line, when there is an expansion all ratepayers pay for it. With the pipeline, the party who wants the expansion pays for it. That party must be credit worthy and sign a long-term contract. It takes about three years to get a pipeline built.

Chairman Pearce introduced **Scott Madison**, of Intermountain Gas Company. See attachment #3. **Mr. Madison** said Intermountain Gas Company is based only in Idaho and has roughly 312,000 customers. In the past 10 years, about 45% of the supply has come from the Rockies (Wyoming/Utah area) and 55% from Canada. The company is supportive of oil and gas development in Idaho.

Senator Stennett asked how many leases there are currently for oil and gas exploration in Idaho. **Mr. Hawk** said there are still some leases held by private companies in Southeastern Idaho and ten-year leases were let a while ago; in total there are probably two hundred leases and the total acreage involved is 150,000-200,000. **Senator Stennett** asked which counties were the leases located. **Mr. Hawk** said Canyon, Washington, Payette, Twin Falls, Bonneville, Bigham, Caribou and Teton counties. **Senator Stennett** asked if the area would go from Teton, down to big Horseshoe towards Payette and Washington counties. **Mr. Hawk** said geologically the areas are not related; the most promising areas in the state of Idaho for hydrocarbons are in the basins that have been delineated.

Chairman Pearce asked of 88% of the hydrocarbon fuel used in the US, how much is coal. **Mr. Hawk** said 42% is coal. The usage of coal is dropping as there are facilities converting to natural gas. There is not as much fuel oil and diesel that are being burned for industrial purposes as there once was. Natural gas is being used less because the rust belt is gone. A lot of the major industries that used natural gas have moved offshore. Liquid hydrocarbons are used for transportation and natural gas is used for heat. **Chairman Pearce** asked if there are any known coal deposits in Idaho. **Mr. Hawk** said there has been coal production in Idaho since the late 1800's, but there are not significant quantities. Most of the coal production has been used locally. Idaho does not have a lot of economical coal deposits. **Chairman Pearce** asked what the process was for turning natural gas into liquid and how much expense that would add. **Mr. Hawk** said there are ways to use natural gas other than the way it is intended. One is to use it under low pressure as a flux to provide heat. When you lower the pressure to -60° or -120°, that will turn natural gas into a liquid until you release it. It is not under pressure, but it is frozen. If the interstate trucking fleet is turned into a natural gas fleet, that will save over one million barrels of diesel a day. To take natural gas and turn it into

liquid-like gasoline is a very costly process that has been tried and does work, but there are no big-scale investments.

Mr. Madison said at the plant, they lose about a quarter of the volume of natural gas to liquefy it. The disparity of the price of natural gas and oil has made it more likely than in the past. If natural gas is used for transportation, the issue is storage. The auto industry has decided to convert cars to electric rather than natural gas.

Representative Raybould said a great deal of the terrain of Idaho has had recent volcanic activity. He asked if there are any gas or oil deposits where there has been volcanic activity. **Mr. Hawk** said the last volcanic activity was 1200 years ago at Craters of the Moon.

Senator Brackett said in the opening remarks it was stated the Idaho Office of Energy should be funded. Currently, the geothermal leases contribute to that, but they are not reliable. **Mr. Hawk** said the Office of Energy exists for all of the citizens of Idaho. It is not just for developers of wind or other renewable energy. The Idaho Office of Energy should be funded by a \$2 fee on every electric meter in the state. That would put flesh on the bones of the previous energy plan.

Representative Harwood asked if there are already cars made in Detroit that run on liquid natural gas. **Mr. Madison** said the only vehicle that is in production is a Honda Civic, which runs on compressed natural gas, which is different than liquefied natural gas or gasoline made with natural gas. There have been vehicles produced since the 1970's that have run on compressed natural gas. However, the market and infrastructure have not been supportive; there have been technological issues and reliability issues with them. If a conversion kit was used, the warranty from the auto manufacturer was violated.

Representative Vander Woude asked when does it become economical to switch from gasoline to natural gas. **Mr. Hawk** said it is a BTU-basis question and that conversion has not been done recently. When you talk about \$5 natural gas vs \$100/barrel of gasoline, there is a 1:20 BTU favorable comparison for natural gas. There would be a difference of \$3 per gallon. **Representative Vander Woude** asked if coal plants would convert or shut down. **Mr. Hawk** said many coal plants are not fully depreciated yet. Rate payers would have to pay and make payments on new conversions. **Mr. Madison** said other plants will be converted as new gas plants come on-line. Newer plants will be converted to meet Federal Laws.

Senator Siddoway asked how purchasing decisions are made when there is a choice between Canadian gas or Rocky Mountain gas. Is it purchased by cubic feet or time. **Mr. Madison** said the gas is contracted from both marketers and suppliers over time. It is for a certain period of time, such as six months. **Senator Siddoway** asked if Intermountain Gas hedged those markets. **Mr. Madison** said they hedge a certain portion of the gas. Historically, they have used financial hedges, but right now it is a physical hedge when a price is guaranteed. **Senator Siddoway** said there is a customer base ready to make the conversion, but there needs to be infrastructure. Is there a master plan to devise an infrastructure to support natural gas. **Mr. Hawk** said T. Boone Pickens has a plan and it is a legitimate one that looks at the nation's freeways and examines the greatest consumption by the interstate trucking fleet. **Ms. Dahlberg** said Williams is in the process of converting its fleet to natural gas and they have purchased conversion kits and they are installed. The future will be collaboration; they are talking to airports and sanitation districts.

Chairman Pearce turned the gavel over to **Chairman Stevenson**.

Senator Stennett said it takes three years to build a pipeline. Access, easements and agreements becomes more and more difficult. She asked if the transmission infrastructure is already in place to deal with growth in the short time. **Ms. Dahlberg** said Northwest Pipeline is fully contracted. The shippers realize how long it will take for infrastructure to be built. There is a vibrant secondary market, where purchases will be made for the future.

The Senate Committee members left the meeting at 2:58 p.m.

Senator Pearce
Chairman

Linda Kambeitz
Secretary