MINUTES OF THE
SENATE COMMITTEE ON NATURAL RESOURCES

Seventy-fourth Session
March 19, 2007

The Senate Committee on Natural Resources was called to order by Chair Dean A. Rhoads at 3:37 p.m. on Monday, March 19, 2007, in Room 2144 of the Legislative Building, Carson City, Nevada. Exhibit A is the Agenda. Exhibit B is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Dean A. Rhoads, Chair
Senator Mike McGinness, Vice Chair
Senator Joseph J. Heck
Senator Bob Coffin
Senator Michael A. Schneider
Senator Maggie Carlton

COMMITTEE MEMBERS ABSENT:

Senator Mark E. Amodei (Excused)

STAFF MEMBERS PRESENT:

Susan Scholley, Committee Policy Analyst
Randy Stephenson, Committee Counsel
Ardyss Johns, Committee Secretary

OTHERS PRESENT:

Lloyd Nelson, Department of Motor Vehicles
John P. Sande III, Nevada Franchised Auto Dealers Association
Alfredo Alonso, Alliance of Automobile Manufacturers
Peter Krueger, Nevada Emission Testers Council; Nevada Petroleum Marketers and Convenience Store Association
Sabra Smith-Newby, Director, Intergovernmental Relations, Clark County
Andrew C. Goodrich, Director, Air Quality Management Division, District Health Department, Washoe County

Leo Drozdoff, P.E., Administrator, Division of Environmental Protection, State Department of Conservation and Natural Resources
Tom Fry, President, National Ocean Industries Association
Jeff Krauss, Director, External Affairs, National Ocean Industries Association

CHAIR RHOADS:
We will open the hearing on Senate Bill (S.B.) 161. Senator Coffin has an amendment to the bill, which he will go over for you.

SENATE BILL 161: Revises the requirements for the inspection of motor vehicles for the control of emissions. (BDR 40-252)

SENATOR COFFIN:
Automobiles are so well engineered now that they not only pass the first and second emissions tests, but in most cases, the third one as well. The public is exempt from having to have the test on a new vehicle for the first two years. In fact, we heard testimony from the Department of Motor Vehicles during the interim indicating the failure rate in the third year is only 1 percent. It seemed appropriate to consider making it more convenient for our motorists by allowing them to go one more year without having to have their vehicles smog checked. It would save them money and the inconvenience of having to find a place to have the smog check done. Since the time I brought up the subject of the bill, I have been made aware by the air-pollution agencies in Clark and Washoe Counties that, while they are not opposed to the bill in principle, they feel the timing is bad, particularly regarding section 1 of the bill. Although we are in attainment in those counties, we are also very close to non-attainment. That does not mean that passage of this bill would push us over the brink in attainment, but it sends the wrong message to federal regulators, and we do want our citizens to breathe clean air. Therefore, I have pulled sections 1 and 2 of the bill. An amendment has been prepared with the assistance of Clark County and agreed to by Washoe County. Only the last section remains, which provides for exemption from smog checks for up to five years for hybrid vehicles as defined in Title 40 of the *Code of Federal Regulations*. This would act as an incentive for people to buy hybrid vehicles. I have not heard any objections to that particular aspect of S.B. 161.

LLOYD NELSON (Department of Motor Vehicles):
I have the 2006 pass/fail statistics for Washoe and Clark Counties, as well as statewide. I can also provide the statistics for the third-year pass/fail rate. For

third-year light- and heavy-duty vehicles in Washoe County, there was a 1.5-percent fail rate. In Clark County there was a 1.9-percent fail rate. Statewide, the fail rate for the third-year vehicles averaged 1.8 percent.

SENATOR COFFIN:
Your expert testimony indicates that the time will come when we can further exempt vehicles from a smog test. Automobiles are being made well enough that they can withstand three years of driving and still pass with a high percentage.

SENATOR CARLTON:
Do you have the fail rates for the fourth-year vehicles?

MR. NELSON:
Yes, for Washoe County there was a 1.5-percent fail rate, 2 percent for Clark County and a 1.9-percent fail rate Statewide.

SENATOR CARLTON:
Does your documentation give you any indication of the reason for those failures?

MR. NELSON:
There are two different test procedures. If it is a light-duty vehicle, we would use an electronic emission test. If it is a heavy-duty vehicle, we would use a tailpipe test. Very few of the heavy-duty vehicles have failed. The vehicles that failed were primarily light-duty vehicles. For the most part, those vehicles had their "check engine" light on. That means the vehicle determined through its self-diagnostics that there is a problem.

JOHN P. SANDE III (Nevada Franchised Auto Dealers Association):
We liked the bill the way it initially read, but we are still supportive of it. It makes a lot of sense, especially with the quality of automobiles now being produced.

ALFREDO ALONSO (Alliance of Automobile Manufacturers):
We support the bill as amended. The fact of those failures has a lot to do with the old fleets still on the road. As those dwindle and vehicles are built to emit less pollution, the hope is that we will not have any pollution in the future.

PETER KRUEGER (Nevada Emission Testers Council; Nevada Petroleum Marketers and Convenience Store Association):
We are in support of S.B. 161 and the amendment. We would like to see that number of years for hybrids reduced from five to three in order to get some data based on how those hybrids will do. Because the hybrid is a new vehicle, there is not a lot of emission test data available. We want to make sure we are moving on a sound environmental course. Hybrids run on two sources of energy and to the degree they are using petroleum-based fuels, it might be sounder to know what their pollution rate is after three years.

SABRA SMITH-NEWBY (Director, Intergovernmental Relations, Clark County):
The U.S. Environmental Protection Agency (EPA) first designated Las Vegas Valley as carbon monoxide non-attainment in 1978 and since then, we have adopted several plans. The federally adopted and enforceable plan includes an alternative low-enhanced vehicle inspection and maintenance program. It is a federally enforceable aspect of this plan and relaxing our inspection and maintenance program does run contrary to federally enforceable law. That was the reason we brought our concerns to Senator Coffin, who has been gracious in working with us on an amendment (Exhibit C). We are in support of the bill as amended.

ANDREW C. GOODRICH (Director, Air Quality Management Division, District Health Department, Washoe County):
I had prepared testimony in opposition to the original bill, but after hearing the proposed amendment, I will offer my support for S.B. 161 as amended.

LEO DROZDOFF (Administrator, Division of Environmental Protection, State Department of Conservation and Natural Resources):
We are in support of S.B. 161 as amended.

SENATOR HECK:
Help me to understand this. You put a plan in place to help attain the goal and part of that was to agree to require an emission test every two years, and now that is what the federal government expects us to do.

MS. SMITH-NEWBY:
That is my understanding.

SENATOR HECK:
How long is that plan in effect? When can we say we are going to go to three years?

MR. GOODRICH:
The air agencies have the ability to amend that plan, although it requires that the air agency also demonstrates that any reduction of one program be offset by equal benefit from a reduction from some other source to indicate that you are always within that air-quality budget.

SENATOR HECK:
So, you think that 1.5-percent to 2-percent failure rate is going to cause enough of an offset that you have to show an offset somewhere else?

MR. GOODRICH:
It would show an increase in emissions, albeit very small, and so yes, the air agency responsible for that plan would have to show how either that increase will not create additional excesses of the national air-quality standard or, in lieu of that, show other reductions in other areas that would offset them.

SENATOR HECK:
So, this is not driven by the federal government but by the locals. If we were to say we were going to do this anyway, you would have to go back and amend the plan and figure out how.

MR. GOODRICH:
That is correct.

CHAIR RHOADS:
If there is no further testimony, we will close the hearing on S.B. 161. We will hear a presentation from the National Ocean Industries Association. First, we have a bill draft request (BDR) that will be made into a Senate bill later today. It is BDR R-1355.

BILL DRAFT REQUEST R-1355: Urges the President of the United States to make additional offshore areas available for energy development. (Later introduced as Senate Joint Resolution 8.)

SENATOR McGINNESS MOVED TO INTRODUCE BDR R-1355.

SENATOR HECK SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR AMODEI WAS ABSENT FOR THE VOTE.)

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CHAIR RHOADS:
We have two more BDRs, which we will introduce one after another. The first is BDR 50-264.

BILL DRAFT REQUEST 50-264: Requires a developer of private land to ensure that the land is enclosed by a legal fence under certain circumstances. (Later introduced as Senate Bill 433.)

SENATOR McGINNESS MOVED TO INTRODUCE BDR 50-264.

SENATOR HECK SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR AMODEI WAS ABSENT FOR THE VOTE.)

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CHAIR RHOADS:
Next, we will introduce BDR 43-400.

BILL DRAFT REQUEST 43-400: Revises provisions governing off-highway vehicles. (Later introduced as Senate Bill 434.)

SENATOR McGINNESS MOVED TO INTRODUCE BDR 43-400.

SENATOR SCHNEIDER SECONDED THE MOTION.

THE MOTION CARRIED. (SENATOR AMODEI WAS ABSENT FOR THE VOTED.)

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CHAIR RHOADS:
Committee, we have an interesting proposal this afternoon. Some time ago, Jeff Krauss, who is the external affairs director for the National Ocean Industries Association (NOIA) in Washington, D.C., met with Senator McGinness and me to go over this request. Tom Fry, who is the president of the NOIA, is a former U.S. Bureau of Land Management director. They presented what seemed like a pretty exciting program, so we invited them here to give us further information. This will be the hearing on the bill that comes from BDR R-1355.

TOM FRY (President, National Ocean Industries Association):
We appreciate the opportunity to talk about offshore oil and gas and renewable development. I will start with the question: What in the world are we doing in Nevada? Unless California falls into the ocean, there has not been a lot of offshore oil and gas development taking place in this State in any of our lifetimes and probably never will. By the time I am through, I hope I can give you a good feeling for why we are here and what we are about.

The NOIA represents all of the companies involved in offshore energy development. That includes oil, gas, wind and wave, and it is not just the producers of that energy. It includes helicopter companies, environmental compliance companies and drilling contractors. We represent those folks in Washington, D.C.

I will start with a few basic facts about energy. I have furnished you with an information booklet (Exhibit D, original is on file in the Research Library), as well as a copy of my PowerPoint presentation (Exhibit E, original is on file in the Research Library). The important thing to recognize is that between 2000 and 2006, natural gas prices rose by 74 percent and oil prices rose 117 percent. We are going to have dramatic increases in what is required in terms of petroleum, natural gas, coal and other renewable energy. We are going to need to increase our energy by an additional 32 percent just to take care of the economic growth expected between now and 2025. Why is this happening? The National Petroleum Council, which advises the U.S. Secretary of Energy, did a study on both supply and demand of oil and natural gas. Petroleum demand will rise, while supply will remain relatively flat. In the case of natural gas, we may even see supply decline. Unlike oil, which can be imported from all over the world, natural gas comes from this hemisphere. We import some from Canada but the rest has to be produced locally. Page 5 of your handout, Exhibit E, depicts

increased natural gas usage expected by 2015. You will notice in every part of the country, there is going to be a need to increase natural gas production in order to meet the demand requirements. Florida will increase its need by 98 percent, because Florida is building a lot of electric generation plants that run on natural gas. We have to ask ourselves where this natural gas is going to come from.

We also have to look at renewables which is another source of natural gas. Not only are we going to have to do oil, wind and wave, we are going to have to do biomass, conservation and engage in every kind of activity possible to increase our energy availability. The thing about renewables that causes us concern is that renewables will probably only represent approximately 3 percent of our demand. That includes all of the renewable projects. Hydrocarbons will represent somewhere around 5 percent of our usage. Where will we get those hydrocarbons? We can get the hydrocarbons we will need from the outer continental shelf. Eighty percent of the outer continental shelf is off-limits to development. You can see from the map on page 7 of your handout, Exhibit E, the only areas where offshore drilling is allowed are off the coasts of Louisiana, Texas, Alabama and Mississippi. Everything else is either under presidential or congressional withdrawal or moratorium.

These are lands that belong to all of the American people. This is not Louisiana's or those other state's offshore oil and gas. Those states are entitled to the first three miles, but that oil and gas belongs to all American taxpayers. It belongs to the citizens of Nevada just as much as the citizens of those states I mentioned.

MR. FRY:
Often, when people are critical of offshore oil and gas development, it is due to questions about safety. The chart on page 8 of your handout, Exhibit E, was done by the National Academy of Sciences. It shows that about two-thirds of all the oil in the sea comes from natural seeps, which means it just bubbles up out of the ground. If you see oil on the beaches in Santa Barbara, California, it is because it came out of the ground. If you were to fly over in a helicopter, you could see the gas bubbles. That is how we knew the oil was there in the first place. Of the remaining third of the oil that comes from the sea, 32 percent comes from activities in which we, as individuals, engage, such as changing your oil in the driveway, leaks from your car, and boating and shipping activity. You will also notice that oil and gas extracting activities amount to less than

1 percent. Even when we have had hurricanes, such as Katrina, the regulatory agency reported that there were no significant spills. This is due to the kind of device shown in the lower right on page 9, Exhibit E. This is a blowout preventer and they are all through the offshore oil and gas fields.

We are all familiar with onshore oil and gas rigs, but you might not be familiar with a floating drilling rig like the one in the picture on that same page. We have had situations where people drill in 10,000 feet of water. When we first started offshore drilling, 25 to 50 feet was considered deep water. It is now a whole different concept. We drill 25,000 feet into the earth's crust.

There is a very extensive public process that goes on prior to leasing or development occurring offshore. There are numerous opportunities for states, local government and the general public to comment prior to leasing and development activities. This program has a lot of transparency and public scrutiny.

As you can see by the picture on page 11, Exhibit E, we do not just drill straight down anymore. We can drill out up to six or seven miles, which allows for a great deal more production to occur. Another thing we have learned, through these kinds of techniques, is we can now have at least a 50-percent increase in our success ratio based on oil and gas drilling. On page 12, Exhibit E, you see a picture of a floating production platform. All of the small spots on the lower part of the diagram are wells. Some of those wells may be as far away as 50 miles from the production platform. An area where 13 platforms used to be required would now probably only require 1 or 2, based on the technology available today.

MR. FRY:
The chart on page 13, Exhibit E, shows the U.S. Department of the Interior Minerals Management Service's estimates of how much oil and gas may be in the federal offshore areas. If you look at the Gulf of Mexico, it shows 44 billion barrels and 232 trillion cubic feet. Those numbers were a fraction of that when we first started drilling there. To find what is there, you have to drill some wells, so while some of the other areas do not have as much in terms of their reserve estimates, it is because we do not know anything about those areas because we have not had a real chance to take a look at them.

Page 14, Exhibit E, gives you some facts about Nevada, which is one of the fastest growing states in the nation. Its energy consumption increased 70 percent from 1990 to 2000. Only 30 percent of Nevada's energy is used for transportation. The rest goes towards electricity generation through coal and natural gas. That affects mining and manufacturing companies and when the prices go up, it affects jobs. We have seen a number of fertilizer plants closed and moved overseas because the main feedstock is natural gas, so it is a jobs issue because of high gas prices. Some of the benefits you already receive from offshore oil and gas are shown on page 15, Exhibit E. It is a report for the Nevada Land and Water Conservation Fund and shows where monies have been spent. This is not like the federal Land and Water Conservation Fund. This shows State grants. This money goes to such things as the sports fields that have been built in Churchill County, the golf course in Wells and the swimming pool heater for Elko. The bill that passed Congress last year will make the funding of that fund permanent. The Nevada Land and Water Conservation Fund is funded solely through money from offshore oil and gas development today.

What we hope you have gotten from our presentation is that this is an issue important to all Americans and not just coastal states. It is time to get rid of some of our old paradigms and look for new concepts. We hope you will encourage our legislators and our elected representatives in Washington to do what is best for the country and best for Nevada, by expanding our current offshore development.

CHAIR RHOADS:
How many other states have passed similar resolutions?

MR. FRY:
Somewhere in the neighborhood of eight or nine states have already done so, or are pending. We started this effort because of what happened in Virginia. The Virginia legislature passed a bill encouraging the governor to encourage his people to lobby on behalf of offshore natural gas development off the coast of his state. The governor vetoed the bill, but then the two U.S. Senators from Virginia introduced bills to open Virginia's offshore. The Virginia effort was about jobs, such as manufacturing and farming. This is a resource that belongs to all American people and something in which all of the states need to be involved. There are four legislatures having bills or resolutions similar to this one that are pending during this cycle.

CHAIR RHOADS:
Did you say it was an executive order by the first President Bush that stopped all of the drilling?

MR. FRY:
Yes, he issued a presidential moratorium stopping any further leasing or development. It was a 12-year moratorium and President Clinton extended it. It currently expires in 2012. There are also yearly congressional moratoria that are passed as part of the appropriations process. Two years ago, Congress stopped having moratoria for parts of Alaska and the President withdrew his initial moratorium as regards Alaska this past December.

CHAIR RHOADS:
So, all of these resolutions do not just open up offshore drilling, they just allow reevaluation?

MR. FRY:
There are a myriad of different ways to look at it. Some of them are just to study it. Some states would just like to know what is there, which was a bill Virginia ultimately passed. A number of bills encourage Congress and the President to lift these moratoria. We realize that not all of them would be lifted at one time, but it may happen in a piecemeal way.

CHAIR RHOADS:
Do you think a state resolution would really have much effect?

MR. FRY:
I do, particularly after the Virginia experience. We are starting to see activity in some of the southeast Atlantic states like Georgia and North and South Carolina. This is not happening in Washington, D.C., but rather in state legislatures.

SENATOR HECK:
How many landlocked states are either passing or have passed a resolution?

JEFF KRAUSS (Director, External Affairs, National Ocean Industries Association):
Last year, Tennessee, Idaho, Kansas and Oklahoma passed resolutions. This year, there is a resolution in North Dakota that has made it through the senate and is now in the house. Montana has a resolution that has passed the house

and is now in the senate, and Wyoming is looking at introducing a resolution. We have also had legislative letters from Arizona and Utah.

SENATOR COFFIN:
Why have we not gone full bore in the gulf near the Mexican waters where we could venture with a country with which we have had a strained relationship? I do not know if Petróleos Mexicanos (PEMEX) is cooperative, but it seems that both countries could profit. I understand there is not only petroleum but also a solid methane which is apparently in abundant quantity under the sea bed. I do not know if we have the technology to extract it, but it would basically be like petroleum prepackaged in ice cubes.

MR. FRY:
We are now drilling all the way out to our Exclusive Economic Zone (EEZ) and the Mexicans are also drilling to the edge of theirs. There was one area in which we had to work out some questions with the State Department regarding to whom it belonged. There is no cooperative effort between the two, but there is certainly interest from both sides. The Mexican government has a provision in its constitution that does not allow production companies to come in and produce oil and gas, so it has to be produced by PEMEX. Therefore, the companies who produce in the United States cannot go to Mexico to produce. The same service companies that provide backing in the United States also provide backing in Mexico.

As to the methane hydrates you mentioned, it is a technology issue. There has been a lot of work still being done by the U.S. Department of Energy, both in Alaska and off the coast, to drill some wells. They are trying to find out how to harvest this massive amount of methane hydrate that people suspect is out there. It is located not only offshore, but in the tundra in Alaska.

SENATOR COFFIN:
How far out from their coastline does the Mexican's EEZ go?

MR. FRY:
We meet each other right at 200 miles, which is what the EEZ is. We also meet the Cubans at about 40 miles. As a matter of fact, the Cubans are starting to drill 40 miles from Florida.

SENATOR COFFIN:
I am amazed you can keep a platform still in those Gulf Stream waters that run six and seven knots in some areas.

MR. FRY:
The more difficult technological problem is something called the loop currents, which are low in the water. When you are down low, three knots is about like having a hurricane, which is one of the technical problems the companies have had to deal with as they have gone deeper and deeper. It is amazing to be on a drill ship the size of a battleship. While out in the ocean, computers are voting every half second and deciding which way to move to keep that ship standing still in the water. You see waves come and other things going on and you think the ship is moving around when actually, it is not going anywhere. It is sitting right over that drill hole in 10,000 feet of water. It is amazing technology.

SENATOR CARLTON:
How do the shore-zone states feel about this since it will be in their backyards?

MR. FRY:
It is all over the place. We all know how the Californians have felt about it since the Santa Barbara oil spill. That is one extreme. Louisianans and Texans will tell you they have been bearing the burden of supplying this country for a long time, but they do not mind doing it because they like the business. Alabama and Mississippi are both supportive, but Florida has been adamantly against it. It has never been a Republican or Democrat issue, but rather a regional issue. You will find that most of the politicians in California are against oil and gas development, and almost all of those in Louisiana, no matter what their party affiliation, are for it. It was probably a luxury we had many years ago to be able to just close our eyes to all of this, but people are starting to ask the question about where we are going to get our energy. Natural gas is the clean-burning fuel and it is out there, but we are just not going after it.

SENATOR CARLTON:
Everybody else in the country thinks their waste should be shipped to our State, so I am uncomfortable telling those states what they should have in their backyards.

CHAIR RHOADS:
There being no further business before the Senate Committee on Natural Resources, we are adjourned at 4:24 p.m.

RESPECTFULLY SUBMITTED:

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Ardyss Johns,
Committee Secretary

APPROVED BY:

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Senator Dean A. Rhoads, Chair

DATE:_____