Testimony of Joseph Choquette, Downs Rachlin Martin PLLC
Regarding S.28
An Act Relating to Divestment State retirement funds from the 200 publically traded companies that hold the largest carbon content fossil fuels reserves

Senate Government Operations Committee
February 4, 2016

Good afternoon Chairman White and members of the Senate Government Operations Committee. I am Joe Choquette from the lobbying firm Downs Rachlin Martin and I am here today representing the American Petroleum Institute. The API is the national trade association representing American's oil and gas industry. **API is opposed to S.28.**

Also with me today is Steve Guveyan. Steve serves as executive director of the Connecticut Petroleum Council, which is a division of the API, and he also provides regional coverage for the association, including responsibility for Vermont. Between us, we are happy to answer any questions you may have following my testimony, or will pledge to follow up with more specific information afterward.

We are not it here to debate the science of climate change. We leave that to the experts in atmospheric science. **However, we do think that divesting of the stock of companies that are in the oil and gas business is the wrong strategy in addressing our energy future.**

Although Steve and I are not world energy analysts, those who **are** charged with understanding the global economy predict that oil and natural gas will continue to be the major source of energy in the United States until at least 2040. **The oil and gas sector** provided about 63 percent of our energy needs in 2013, and **will provide about 62 percent of our needs in 2040, according to the Energy Information Administration** of the U.S. Department of Energy.

In a 2012 speech on energy, **President Barack Obama called for an "all-of-the-above"** energy strategy that includes renewable resources. API supports that strategy, so long as renewables are used in the right places and the right amounts, and we also believe that oil and gas will be dominant fuels in the world for decades to come.

Divestment is a poor financial strategy. Historically, investments in the energy sector in general and in oil and gas in particular have been profitable for shareholders over time. A study conducted by the Sonecon company commissioned by API and last updated in 2015 found that returns of oil and natural gas stocks in the two-largest state pension funds in 17 different states significantly outperformed other assets in those funds. **Oil and gas stocks made up an average of four percent of the funds' holdings, but accounted for eight percent of the returns over an eight-year period (2005-2013)** -- a time of both vigorous expansion and deep recession. The share of the funds' returns attributable to oil and gas, therefore, were twice as much as the underlying investments. Although the price of oil stock is down right now, this is a cyclical industry, and according to many experts, the price of oil will eventually rebound.

Next, we believe that **divestment is the wrong strategy for addressing climate change**. Investor-owned oil and gas companies are leading the way in research into alternative fuels, alternative energy resources and carbon mitigation. Treasurer Pearce has told you about Total's investment into solar power. There are many other examples as well:

- **ExxonMobil is a leader in carbon capture and storage** (CCS), whereby carbon dioxide that would otherwise be released into the atmosphere is separated, compressed and injected into the ground for permanent storage. Right now, the company is using CCS for enhanced oil recovery, which means it injects CO2 into depleted oil wells in order to capture every last gallon of oil or BTU of natural gas. It captured more than six million metric tons of CO2 in 2014 alone.
- **Shell is installing a nationwide network of 400 hydrogen fueling stations in Germany** beginning this year. In hydrogen-fueled cars, also known as fuel-cell electric vehicles, the vehicle's fuel cell converts compressed hydrogen from the fuel tank into electricity that powers the motor. Fuel cell electric vehicles produce no greenhouse gas emissions from the tailpipe, only water. The effort is being undertaken by Shell with several partners, such as **TOTAL** and **OMV**, the Austrian oil company**,** as well as car maker Daimler. Shell has also opened 2 hydrogen fueling stations in California.
- **Chevron is one of the world's leading producers of geothermal energy** . Created by the heat of the earth---it has almost no greenhouse gas emissions. The company generates large amounts of it in Indonesia and the Philippines. The project in Indonesia produces steam for two power plants with a total capacity of 647 MW. In the Philippines, the company partners with a local firm and produces steam to power plants which generate 692 MW of electricity. It also has a 49 MW geothermal plant in California.
- According to another study commissioner by API, the **investor-owned oil and gas industry invested more that $90 billion in greenhouse gas mitigation technologies between 2000 and 2014** including $11.4 billion in non-carbon energy sources (wind, solar, geo-thermal and biomass.)

The $90 billion oil and gas investment was nearly **30 percent of the $304 billion overall U.S. investment in greenhouse gas mitigation strategies**, just below the federal government ($111 billion) and all other private sector investors ($103 billion). To divest of these companies now is to risk missing out on the next big energy advance.

As you may know, recent developments in hydraulic fracturing and directional drilling have led to a resurgence of the American oil and gas industry and its position in the world. As we have become self-reliant in the past few years, new natural gas development has also enabled electric utilities to replace coal and oil-fired generation with cleaner burning natural gas. **According to the EIA, carbon dioxide emissions from energy consumption in 2012 were at their lowest level since 1994**.

Improving our operations and reducing emissions from them is one of our industry's top priorities. EPA's latest gas inventory reported that methane emissions from hydraulically fractured gas wells are down 79 percent since 2005. **Total methane emissions from natural gas systems are down 11 percent since 2005**, a direct result of industry innovation.

Finally, divestment from investor-owned oil and gas companies will do little to change the world market for oil and oil products. According to the EIA, **less that six percent of the proved oil reserves in the world are owned by investor-owned companies.** The rest is owned by foreign governments, many of whom wish us harm.

We believe the state owes its allegiance to the 49,000 state employees who have worked for the State of Vermont and will some day retire. Management of state pension funds should be left to the experts who will maximize their return on investment to the benefit of these state employees. Whether it is oil, gas and coal today or another unpopular industry tomorrow, **we should not play politics with state employee retirement funds.**

Pension Funds around the country agree with that goal, whether the investments pay for scholarships for first-time college students or retirement for long-time employees. Some of the fund managers that have rejected divestment include those at **Harvard, Yale, Brown, Columbia, Cornell, MIT, Tufts, Middlebury College, NYU, UVM and the City of San Francisco.**

In short, we believe that the investor-owned oil and gas industry will provide essential fuels that keep the state and nation warm, working and healthy for many years to come. We believe the industry that is leading the world in alternative energy and carbon mitigation research is also a sound investment for fund managers. We believe that pension funds should be managed for the good of their beneficiaries, and should not be subjected to shifting political views.

Thank you.