energy API

Connecticut Petroleum Council
A Division of API

Steven Guveyan
Executive Director

44 Capitol Avenue
Suite 103-B
Hartford, Connecticut 06106
Telephone 860-246-8846
Fax 860-246-6495
Email ctpetroleum@comcast.net
www.api.org

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Testimony of Connecticut Petroleum Council Director Steven Guveyan Opposing HB-5733, Which Requires the State Treasurer to Divest Stocks and Bonds of Oil, Gas & Coal Companies From the State Pension Fund

The Connecticut Petroleum Council---whose members include energy companies in many sectors of the oil & gas industry---opposes HB-5733, requiring the State Treasurer to sell from the state pension fund all stocks and bonds in the so-called "Fossil Fuel" industry (oil, natural gas & coal) over a five-year time period due to climate change concerns. As you know, the Treasurer has a fiduciary responsibility to manage the pension assets for 194,000 state and municipal employees, teachers, retirees and survivors to help them secure retirement. This bill ties her hands and forces a mandate upon her---one with severe negative financial consequences---because investments in at least 43 (energy) companies in the S & P 500 would be barred.

Reasons for Objections

1. *Oil & natural gas stocks have historically provided good financial returns to investors from capital gains and dividends; this bill requires the sale of existing oil & gas stocks and bonds from the state pension fund, and also prohibits their purchase in the future, thereby hurting Connecticut pensioners.* A Sonecon report commissioned by the American Petroleum Institute (API) in 2011 analyzing 17 state pension funds found that returns on oil & natural gas assets in the top two funds in each state strongly outperformed other assets in those funds. The share of the funds' returns attributable to oil & gas investments were, on average, 3.4 times greater than their share of funds' assets: Oil & gas stocks made up on average 4.6% of holdings, but accounted for an average of 15.7% of the returns over a five-year period (a time of both vigorous expansion and deep recession). U.S. pension funds (both public and private) clearly believe oil & gas stocks are very good investments: They own 29.8% of all oil & gas stocks. The Sonecon study can be found here.

2. *In Vermont, the State Treasurer and her advisory group said "NO" to divestiture because it would financially hurt its retirement system and also result in lost opportunity.* Had Vermont sold its oil & gas stocks, two senior state officials said it would have cost the state retirement system $2-$8.5 million in the first year and $8-$12 million every year thereafter. That wouldn't have a big impact on the petroleum industry, but it would prevent the state from participating in any future technological development "that might be transformational or revolutionary" in the energy sector. In other words, the best way to effect change is to be part of the action.

3. *The divestment effort is increasingly being rejected by a number of major pension and endowment funds*: Harvard, Yale, Brown, Middlebury College, the state of Vermont, the city of

San Francisco and others have all said "*NO.*" Explaining her rationale, Harvard University president Drew Faust said she found it "troubling" to require divesting from an entire class of companies at the same time we rely on their products and services for so much of what we need every day---heating, lighting and transportation. Divesting would also limit portfolio diversification, thereby increasing investment risk.

4. *Connecticut has made a strong commitment to the oil & natural gas sectors for its future energy needs. Requiring companies in those industries "to do more and invest more" while at the same time requiring the state pension fund to divest its stocks & bonds is hypocritical and disingenuous; therefore, the state should be allowed to retain its oil & gas investments.*

- In 2013, the legislature passed Governor Malloy's Comprehensive Energy Strategy which calls for significantly increasing the amount of natural gas from the Marcellus Shale (PA, OH and WV) in order to provide fuel for homeowners converting from heating oil to natural gas.
- In 2014, the legislature passed the "Ports Bill" in order to better market and coordinate business for the ports of New Haven, Bridgeport and New London, in part to accommodate more liquid petroleum products (e.g. gasoline, diesel, jet fuel and heating oil). It is the oil industry that finds, produces, refines and transports those products to those cities.
- In 2015, ISO-NE, the independent system operator for the New England electricity system, said the region needs more energy infrastructure: more natural gas pipeline capacity; more oil and LNG storage; and more alternative energy---very much in-line with President Obama's "All-of-the-Above" energy strategy. Both this winter and last, oil- and coal-fired plants were---at critical times---major electricity-generating suppliers. ISO-NE has been conducting a winter-time supply program for oil and liquefied natural gas (LNG) because both fuels are critical in assuring the reliability of the electricity grid----as is coal---on very cold days.

5. *The oil & gas industry continues to lead the way in reducing carbon emissions.* From 2011-2012, the oil & gas industry directly reduced its own emissions by the equivalent of 53.6 million metric tons of carbon dioxide---the same as taking 10.8 million cars off the road. From 2000-2012, the industry invested approximately $81 billion in greenhouse gas mitigation technologies; during that same time period industry spent $11.4 billion in non-hydrocarbon resources, including wind, solar, geo-thermal and biomass. Greenhouse gas reduction efforts are working: In Connecticut, emissions declined 9.5% between 1990 and 2011, even though the state population increased by 300,000 and car registrations were up by 175,000. Emissions are down at least 20% from their peak in 2004. Nationally, the U.S. is at almost 20-year emission lows according to EPA data.

Conclusion: Divesting the state pension fund of oil & gas stocks and bonds is not prudent or practical: It leads to an erosion of state and municipal employees' hard-earned nest eggs and is symbolic-only. Therefore, we ask the Environment Committee to reject the bill.