

Committee on Resources, Subcommittee on Energy & Mineral Resources

[energy](#) - - Rep. Barbara Cubin, Chairman

U.S. House of Representatives, Washington, D.C. 20515-6208 - - (202) 225-9297

Witness Statement

STATEMENT OF
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PHILLIPS PETROLEUM COMPANY
BEFORE THE
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
OF THE
COMMITTEE ON RESOURCES
OF THE
U.S. HOUSE OF REPRESENTATIVES
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Madam Chairwoman and Members of the Subcommittee, thank you for the opportunity to come before you today to present the views of Phillips Petroleum Company with regard to the safe and orderly development of Coalbed Methane from this country's federal lands, and primarily in the Rocky Mountain Region.

My name is Don Walleette, Jr. I am Rocky Mountain Region Manager of the Americas Division of Phillips Petroleum Company located in Denver, Colorado. Phillips Petroleum is a major multinational integrated oil company headquartered in Bartlesville, Oklahoma, with just over 13,000 employees worldwide. Phillips is involved in every facet of the oil and gas business, including exploration, production, refining, marketing, and transportation as well as research and development. We are also major players in the chemicals and gas gathering and processing businesses through joint ventures with Chevron and Duke Energy, respectively.

In the Rocky Mountain Region of the United States, Phillips has a major operating unit which focuses on the exploration and production of non-conventional natural gas resources with a primary focus on coalbed methane (CBM) and other tight formation gas resources. We have been actively engaged in the development of coalbed methane since 1989. Today, we produce CBM from over 1660 wells in the San Juan, Uinta, Black Warrior and Powder River basins in New Mexico, Utah, Alabama, and Wyoming, respectively, and also have active ongoing CBM exploration in unexplored areas in Wyoming, Colorado and China. Phillips has close to one-half billion dollars invested in CBM activities in the West. Phillips has a significant interest in federal lands in the American West that contain much of the country's known reserves of natural gas and oil.

When I joined Phillips many years ago, one of the key issues being debated in Washington was the need for a national energy policy. Phillips applauds the Committee and the House in your recent passage of H.R. 4. This proposal provides a good first step in addressing America's long-term energy needs.

Coalbed methane is playing a major role in meeting the domestic natural gas needs of this Country and has

the potential to play an even greater role. According to the recently released report on a National Energy Policy, the shortfall between projected energy supply and demand in the year 2020 is expected to be nearly 50 percent. Electrical power generation is a key focus of this demand increase. Currently, about 16 percent of domestic electrical generation comes from natural gas. Between now and 2020, natural gas is projected to constitute about 90 percent of all added electrical generation, tripling today's gas contribution. This supply/demand scenario was also confirmed by a recent study on natural gas by the National Petroleum Council (NPC). An update of that study recently revealed that natural gas reserves in the United States are not being added at the pace anticipated in last year's original study. To meet 2020 demand, total natural gas wells drilled annually will need to double the 1999 level, requiring staggering investments of some \$658 billion by producers in the 1999-2015 timeframe.

The National Energy Policy Report and many other industry experts point out that gas from non-conventional sources is the fastest growing resource base and is expected to make a major contribution to America's growing energy needs. While I cannot verify that it is true, many industry experts believe that non-conventional gas resources, primarily coalbed methane, has moved into the California electric generation market to the degree that it has been a key factor in helping to lessen that State's anticipated summer supply/demand problems.

The report also correctly points out that the contribution of this resource will, largely, be determined by the future regulatory impediments it may face and by access related issues. Regardless, natural gas is clean, safe, efficient and reliable and is destined to play a vital role in meeting our Nation's energy needs. Coalbed methane stands ready to be a major contributor, if allowed to do so. We commend the work of this subcommittee in acknowledging the potential for increased production from CBM and its efforts to recognize those areas that may hinder the development of this resource.

Impediments to CBM Development

Madam Chair, I appreciate the invitation to appear before the Committee today to discuss the policy initiatives needed to achieve adequate CBM production from federal lands and impediments to timely development of CBM resources in the United States. The first and foremost policy initiative necessary to achieve adequate CBM production from federal lands is, simply put, timely access to federal lands under which much of the coal resource lies.

Access to Federal Lands

The availability of government lands to oil and gas producers is critical to meet the nation's growing needs for abundant, clean, efficient natural gas. America has vast natural gas reserves to help it meet its future requirements (1,200 to 1,600 trillion cubic feet (Tcf) including resources in coal seams and tight sands formations). But we must have greater access to government lands to produce this energy in an environmentally responsible manner.

Many government lands that should be open for leasing are in fact, off limits, or severely restricted from responsible development. Since 1983, access to federal lands in the western United States—where an estimated 67 percent of conventional onshore oil reserves and 40 percent of our natural gas reserves are located—has declined by 60 percent. According to DOE's Energy Information Administration, an estimated 40 percent or 137 Tcf of potential natural gas resource in the Rockies is either closed to exploration (29 Tcf) or is open to development under restrictive provisions (108 Tcf).

Congress has directed the Bureau of Land Management (BLM) and the Forest Service (USFS) to allocate non-wilderness lands for resource use, identify areas that are available for oil and gas leasing and identify important wildlife habitat areas, and inventory wilderness candidate lands among other uses.

Each agency has completed land use plans for the lands they administer, including lands that are candidates for wilderness designation. Yet, many lands not selected for wilderness designation are managed as "wilderness study areas." In effect, these lands become de facto wilderness and are removed from all mineral entry for the unforeseen future. Further, these agencies often dictate lease stipulations as conditions of approval for exploration and production. Stipulations are intended to protect resource values in conjunction with proposed projects, such as exploratory wells, yet many conditions required, such as "no surface occupancy," essentially preclude exploration and production from occurring. Often excessively restrictive surface use stipulations, most often associated with wildlife, are imposed on exploration prospects or within existing producing fields, causing improper management of resources, unnecessary drilling delays and lengthy seasonal closures. Phillips pays lease rentals for 12 months of access but often we are only granted access for one to three months of the year because of lease stipulations or no surface occupancy restrictions. Both agencies are required to manage lands they administer under the congressionally mandated concept of multiple use. Yet, BLM and USFS discretionary actions have withdrawn federal lands from leasing and long delayed other leasing decisions and project permitting.

Access to federal lands is also often significantly delayed while National Environmental Policy Act (NEPA) requirements and associated documentation is being completed. These delays often manifest themselves in drilling moratoria. An example of this type of moratoria on new drilling exists today in the Powder River Basin. We are gravely concerned and significantly impacted by continuing delays in completion of the Powder River Basin CBM Environmental Impact Statement (EIS). The development of the coalbed methane in the Powder River Basin has been hampered by a drilling moratorium since early 2000, and will continue to be delayed until such time as the EIS is completed.

In an effort to protect public resources which are being drained by non-Federal CBM wells, the BLM completed a Drainage Environmental Assessment (EA) in March of this year that authorized the drilling of up to 2,500 wells on public lands in the Powder River Basin. To date about one-third of the drainage permits have been issued and the remaining balance most likely will be permitted by year-end.

Meanwhile we wait for the results of the EIS, which will determine whether and how industry will proceed with the 50,000 CBM wells required to fully tap the gas resource. The BLM's 2002 Budget Justification document stated "A draft EIS will be submitted for public review by July 1, 2001 and a final EIS and Record of Decision (ROD) will be issued by March 1, 2002." Here we are fourteen months later and the draft document has still not been issued and according to the BLM, a ROD is not expected until late July 2002, at the earliest.

The expected impacts of lengthy Powder River Basin EIS delays include:

- Public resources will continue to be drained by non-Federal activity;
- Wyoming state revenues from federal royalties will be negatively impacted;
- Producer volumes will not materialize as expected, detrimentally impacting returns;
- Pipeline transmission companies, who are investing tens of millions of dollars to expand capacity, will

realize under-utilized capacity; and

- The service industry, which has worked hard to respond to the needs of the industry, will have to adjust to the anticipated lull in activity and will likely be unable to retain employment at current levels.

What are the government agencies doing in response to these unexpected delays in order to mitigate the potential impacts? Are they crashing resources on critical path activities? Are they considering 'bridging' solutions, such as a supplemental EA for another one or two thousand wells? Are they making the tough management decisions that are necessary to run a major project according to plan? I don't have the answers to these questions, but perhaps they should be asked.

Streamlined Permitting, Budget & Staffing

In the same study referenced earlier by the National Petroleum Council (NPC), it points out that vast reserves of natural gas in the form of coal bed methane (CBM) lie beneath federal lands, especially in Wyoming and Montana. However, BLM's inability to grant drilling permits or complete their required National Environmental Policy Act (NEPA) evaluations in a timely manner has greatly hindered CBM development, and may contribute to further shortfalls in necessary future gas production. These NEPA delays are often compounded by the fact that many agency land and resource plans are outdated and in need of revision.

Regional oil and gas permitting program inconsistencies exist between BLM offices throughout the West. Varying, inconsistent, and subjective approaches to NEPA analysis, or levels thereof (environmental assessment verses environmental impact statement), often cause confusion as well as inefficient use of time, personnel and funding. Redundant permitting efforts often exist between the state oil & gas permitting agency and the BLM. The State of Utah has recognized this redundancy and has worked well with the Utah BLM to streamline the process.

Phillips works closely with the BLM field offices on a daily basis. We know them well and have a high regard for their professional competence and their commitment. Through our day-to-day interaction with the BLM we can also draw conclusions about the scope of their activities and associated workloads. Our sense is that the growth of natural gas activity in the West, particularly with respect to CBM, has far outpaced the BLM's ability to respond in a timely manner. Obviously, cycle times are critical in a capital-intensive industry such as ours.

It is interesting to consider some statistics that would seem to validate the concerns that industry has related to the lack of appropriate BLM staffing. From the 2002 Budget Justification from the BLM, we find that activity in the Oil & Gas Management sector has increased significantly and is projected to continue. For example, in 2002, the BLM expects:

- APDs (application for permits to drill) processed are expected to increase 58% from 2001.
- Reservoir Drainage Cases are expected to increase 92% from 2000.

Meanwhile staffing, which should be activity-related, is expected to increase 4.7% from 2000 to 2002 - a total of 32 jobs focused on one BLM field office in Buffalo, Wyoming.

It is difficult to reconcile the nation's needs for energy, the billions of dollars and thousands of people the industry is devoting to developing the needed resources, with the government's response of adding 32 jobs. This seems to be either a lack of understanding of the scope of work or a disregard for the impact that governmental agencies have by continually residing on the critical path.

In terms of overall agency performance, opportunities exist to streamline the permitting process, improve inter-office and inter-agency coordination, and consistency. In some instances we recognize that individual BLM offices may be understaffed or not appropriately funded, and therefore, are simply unable to efficiently process permitting requests. We, therefore, support increased funding for BLM to adequately address these critical permitting backlogs and NEPA documentation efforts.

Environmental Considerations

Two separate environmental issues regarding the production of coalbed methane are currently the topics of discussion at the state and federal levels. The first pertains to the process of hydraulic fracturing of coalbed methane formations to stimulate production, and its potential effect on underground drinking water sources. The second issue relates to the water issues associated with producing coalbed methane in the Powder River Basin.

The Eleventh Circuit Court ruled in 1977, in *Leaf v EPA*, that the process of hydraulic fracturing to stimulate certain types of gas wells, constituted "underground injection" under the Safe Drinking Water Act (SDWA). This ruling apparently is based on a technical reading of the statute as the court did not identify any environmental concerns with the practice. The effect of this ruling was to require an onerous state program requiring the certification that fluids being injected meet SDWA standards for drinking water. There is currently a challenge to this ruling that seeks national regulation of the practice. States currently oversee this practice and have in place a superb regulatory process to protect state aquifers. The protection of our drinking water sources is Phillips highest priority when producing coalbed methane. We believe that the practice of hydraulic fracturing certain gas wells to stimulate production is an environmentally sound practice, as analysis demonstrates. Any review of the process as it relates to coalbed methane production should ensure that the states continue to have the lead role of protecting and ensuring the quality of their aquifers.

Access to Markets – Infrastructure Development

I'd like to speak for a moment about infrastructure – pipes and wires. We have, in the West, a world-class resource base with vast amounts of proven and potential reserves. In America, we are blessed with world-class markets – strong, efficient and growing. Unfortunately, large distances typically separate the two. At times it seems that our infrastructure is far closer to third-world rather than world-class.

The impediment to development of CBM resources in the West is, and will be, profitability. Today, natural gas produced in the Powder River Basin commands the lowest price of any gas produced in the nation, with discounts to NYMEX approaching \$1/mmbtu. The reason for this is not because the quality of the gas is inferior, but because there are significant bottlenecks in the transportation system creating gas-on-gas competition. In Utah, our gas production has been curtailed significantly while we wait on needed expansions to be completed in the transmission system. It will do little good to resolve the issues associated with development of CBM unless the impediments associated with marketability are simultaneously addressed.

Infrastructure deficiencies not only impede commerce, but also introduce high levels of volatility in the price of the commodity. The impacts of this are obvious, and except, perhaps, for certain commodity traders and speculators, are un-welcomed. It leaves consumers angry, capital providers insecure, regulators and politicians perplexed and concerned, and producers frustrated that our products are unable to be delivered.

Our concerns are not limited to impediments affecting gas transmission. As large consumers of power and suppliers of fuel to electrical generators, we are also affected by impediments to efficient electricity generation and transmission.

Recommendations

Among the many constraints that confront the timely development of CBM resources, we believe an attempt to address the following areas would greatly enhance our ability to bring these resources to market.

- Increased funding for BLM to address critical permitting backlogs, NEPA documentation efforts, and to revise agency land and resource plans.
- Modernize and streamline permitting process and incorporate a 45-day Application for Permit To Drill, Right-of-Way, and expressions of interest to lease processing requirement.
- Complete a focused reevaluation of the effectiveness and present application of common wildlife lease stipulations and associated timing windows.
- Consider the Utah permitting approach in other western states.
- Expedite wilderness inventories, with an emphasis on Wilderness Study areas, and monument designation reviews with consideration and protection of prior valid existing rights.

We applaud this Committee's passage of legislation enacted in the last Congress directing the Departments of the Interior and Energy and the Forest Service to conduct an inventory of oil and gas resources on federal lands and the restrictions that prevent access to these critical resources. We urge Congress to fully fund this inventory in the FY 2002 appropriations process so that adequate information will be available on resource availability.

In conclusion, Madam Chair and Members of the Committee, Phillips is excited about the potential that gas from coalbed methane has to offer America's consumers. As our nation's reliance on clean, natural gas resources continues to grow, coalbed methane can and will play a major role. That role can be enhanced greatly if access and other development impediments are adequately addressed.

Again, I thank the Committee for this opportunity to present Phillips' views on this important resource.

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