

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

Testimony of
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The American Petroleum Institute (API) welcomes this opportunity to present the views of its member companies on the question of short and intermediate term initiatives to enhance energy development in the United States. API is a national trade association representing more than 400 companies engaged in all sectors of the U.S. oil and natural gas industry, including exploration, production, refining, distribution, and marketing.

We are gratified that this Committee appreciates the importance of access to the federal lands in our nation's future energy supply. We applaud the Bush Administration for including access to federal lands in its review of energy policy by a Cabinet-level task force on the subject, and we are encouraged that you and other Members of Congress of both parties are putting access high on your agendas.

Today, we are asked to comment on measures that might be taken to impact the supply of energy from federal lands within the next five years. In fact, while there are some frontier developments in deep water offshore and on the North Slope of Alaska that require longer lead times, most of the access issues we have emphasized in other testimony before this Committee this session could result in positive supply impacts in a time frame of five years or less. However, as I will point out, some of the most significant supply developments on federal properties over the next five years are the result of congressional and administrative actions in the mid-90's. As a consequence, we should be cautious that a focus on the next five years does not distract us from measures needed today with equally or more serious consequences for supply 10 or 15 years in the future.

What do we mean by access?

Let me begin by defining carefully what we mean by access to federal lands, and just as importantly, what we do not mean. Our critics characterize our quest for improved access as a call for the wholesale opening of all federal lands to resource development, without regard to environmental impacts. Quite the contrary is in fact the case. The U.S. oil and gas industry does not ask to drill on parklands or in wilderness areas set

aside by Acts of Congress. Rather, we seek access to a very selective set of resource-prone areas offshore, and in the American West that have been designated as "multiple-use" by Congress, and areas of Northern Alaska designated for potential oil and gas development. What we ask is that on these lands the value of energy potential be considered along with other values, and that when this potential can be developed consistent with such values, that development should be permitted.

Onshore Access in the Western States

The first area, and the area with the greatest potential for short-term impact, is the multiple use land in the Western states. Most of the barriers to development on these lands involve regulatory processes that could be streamlined by administrative action. Most of these multiple-use areas are simply vast expanses of nondescript federal lands. However, because they lack the beauty and grandeur of the Grand Canyon or the Grand Tetons does not mean that we treat them with less respect than we do any other lands entrusted to us by the government, or by private landowners. Most people driving near or hiking in one of these areas would be hard-pressed to locate one of our facilities once the drilling rig is removed. Safety and environmental protection are critical concerns, regardless of the location of drilling.

Yet, despite our record of sound stewardship, President Clinton used his executive powers under the Antiquities Act to bar oil and gas exploration and other activities on vast regions of government lands. For example, the designation of the Grand Staircase-Escalante Monument in Utah in 1996 summarily withdrew promising valid oil and gas leases on state lands without even notice to or consultation with state and local authorities, or affected communities. Likewise, the U.S. Forest Service recently banned our companies from exploring for oil and natural gas on promising government lands when it published rules to bar road building on nearly 60 million acres in the Forest System that, according to a Department of Energy study, could hold 11 trillion cubic feet of natural gas. Furthermore, the roadless rule case illustrated the cavalier disregard with which energy potential is dismissed in federal land use actions. In the Rocky Mountains, access to about 83% of the affected gas resource could have been preserved by less than a 5% reduction in the roadless acreage. It was not.

In the lower-48 states, a study by the Cooperating Associations Forum found that federal lease acreage available for oil and gas exploration and production in eight Western states (California, Colorado, Montana, Nevada, New Mexico, North Dakota, Utah and Wyoming) decreased by more than 60 percent between 1983 and 1997 - and that does not count the major land withdrawals, such as Monument designations, since 1997.

Approximately 205 million acres of federal lands in these states are under the control of two federal agencies with broad discretionary powers. The Bureau of Land Management (BLM), whose land management planning authority is derived from the FLPMA of 1976, and the U.S. Forest Service (USFS), whose jurisdiction is derived from the National Forest Management Act, administer these federal, non-park lands. Both agencies are required to manage most of these lands 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.

Congress has directed the BLM and Forest Service to allocate non-wilderness lands for resource use, identify areas that are available for oil and gas leasing, identify important wildlife habitat areas, and inventory wilderness candidate lands among other uses. Each agency has completed land resource management plans for the lands they administer, including lands that are candidates for wilderness designation. Yet, some lands found unsuitable for wilderness designation are, however, managed as "wilderness study areas," effectively removing approximately 28 million acres inappropriately from

consideration for resource development. Further, these agencies often dictate extraordinary 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.

Relaxing these restrictions is particularly important if we are to address the immediate problem of natural gas supply in the U.S. Unlike oil, gas tends to be a North American commodity, not supplemented easily by large scale imports from outside of North America. Gas is also critical to a serious transition currently underway in the manner we are going to satisfy the already burgeoning demand for new electrical generating capacity. Since natural gas markets are regional, rather than global, 86 percent of the natural gas consumed in the United States is produced domestically. The Rocky Mountains are one of the areas of the U.S. with the greatest potential, containing an estimated 346 TCF of remaining technically recoverable gas. Moreover, it is an area where development can occur quickly, if allowed, so that it offers the real potential of substantial supply effects within a 1 to 2 year window. In the Foreland region, for instance, supply is estimated by the NPC to rise by about 38% between 2000 and 2005.

Often, getting a lease is not the most significant problem for producers. Difficulties in acquiring permits to drill wells on onshore government lands and overly restrictive lease stipulations are responsible for limiting natural gas production. These are restrictions, such as "no surface occupancy" or seasonal stipulations, which go above and beyond the normal environmental stipulations and can prevent economic development of the lease without commensurate environmental benefit.

Almost half of the untapped natural gas on multiple-use government lands in the Rockies is in areas either off limits or restricted by this type of stipulation laid down by one federal agency or another.

This information is important because the facts are often ignored and often distorted by those who do not believe greater access to government lands is needed by our industry. In recent testimony before this subcommittee, for instance, we heard material distortions by the witness for the Wilderness Society. In particular, the Wilderness Society witness, in his testimony and in the study submitted for the record, concluded that only a small percentage of BLM lands in five western states is off limits to leasing and development.

Those conclusions gloss over the most significant point: the percentage of government lands available for leasing is a meaningless figure without knowing whether the leases can be developed. In many instances, lessees cannot obtain the permits needed to develop leases. In others, development is rendered uneconomic by unnecessarily restrictive operating stipulations.

The Wilderness Society witness surgically selected certain data, and omitted other significant data to attempt to prove their inaccurate assertions. For example, while the numbers presented by the Wilderness Society do show that only about 3.5 percent of the BLM lands in Wyoming, Utah, New Mexico, Montana, and Colorado is strictly off limits to development, oil and gas resources in those states are not distributed uniformly across BLM lands. Specifically, while the Wilderness Society says only 3.5 percent of BLM lands are off-limits, the NPC study identifies another 3.2 percent that are subject to No Surface Occupancy. The NPC study indicates that this 6.7 percent of BLM lands represents 15 percent of the BLM natural gas resources, which are either off-limits or significantly impinged.

More important, however, is the role of non-standard lease stipulations. The Wilderness Society's data show that seasonal and other non-standard stipulations restrict access to an additional 32 percent of BLM lands.

However, this impacts access to 47 percent of the natural gas resources estimated to exist on BLM lands in the Rockies. When all of these restricted and off-limit BLM lands are combined they total 38.7 percent, affecting 62 percent of the natural gas resources.

Further, BLM is not the only federal land management agency making such restrictions. These witnesses omitted the U.S. Forest Service, the Bureau of Indian Affairs and the departments of Defense and Energy in their computation of federal multiple-use lands that are restricted to oil and gas development. In total, the National Petroleum Council estimates that some 137 Tcf of natural gas resources lie beneath Federal land in the Rockies that is either off limits to exploration, or heavily restricted. This is 48 percent of the natural gas on Federal land in the region. This does not include the more than 11 trillion cubic feet (Tcf) of natural gas that was summarily placed off limits late last year alone by the USFS "Roadless" rule, as mentioned above.

But stipulations are not the only impediments to bringing the oil and natural gas to America's consumers. Inadequate agency resources in many BLM offices and required but outdated resource management plans often make it difficult to get drilling permits, seriously delaying viable projects for up to 100 days, or sometimes years. In the Rawlins, Wyoming BLM office, for example, thousands of Applications for Permits to Drill are awaiting action because of manpower shortages. In the Buffalo, Wyoming office, thousands more are not being accepted by BLM because of limitations of the resource management plans (RMP) for the area. This is because the "Reasonable Foreseeable Development" (RFD) figures, estimates of future development, failed to recognize the interest in developing coal bed methane. Updating these RMPs and RFDs takes the BLM two or more years to complete, thus limiting further oil and gas activity in that area until the plans are finished. Expediting the land use planning process is critical to increasing production from these lands over the next 5 years.

The NPC study on natural gas referred to earlier also 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 permits in a timely manner has greatly hindered CBM development, and may contribute to further shortfalls in necessary future gas production. In some instances, we recognize that individual BLM offices may be understaffed and therefore are simply unable to efficiently process permitting requests. We therefore support increased funding for BLM to adequately address these critical permitting backlogs.

In summary, the resources of the federal lands in the Western states offer enormous potential to address the immediate energy demands for natural gas in the U.S. This potential is currently highly underutilized due to restrictions on land use for energy development, and relaxing the restraints on access described here could produce significant supply effects within one to two years.

Federal OCS

The second area of federal property of key importance to supply growth over the next five years is the Federal Outer Continental Shelf. The OCS has assumed increasing importance to U.S. energy supply over the past half century. The federal portion of the OCS now supplies 24 percent and 27 percent of the oil and gas produced in the United States. Offshore production promises to play an even more significant role in the future. The Department of Energy forecasts that offshore production will rise to nearly a third of our domestic oil and gas supply within a decade.

Technological revolutions, such as 3-D seismic profiling of promising structures, coupled with astounding computer power and directional drilling techniques which allow numerous reservoirs to be accessed from

one drill site have driven down the costs of finding oil and gas. And at the same time these technologies allow development with much less disturbance to the environment. Tremendous advances in our ability to drill and produce in the deep waters of the Gulf have also resulted in vast new reserves being added to our resource base.

The Gulf of Mexico currently supplies over 25% of U.S. natural gas production. However, it is currently in the midst of a transition that will be substantially played out over the next five years. That is, while the shallow waters of the shelf now provide the bulk of supply from the Gulf, there is now accumulating evidence that resource depletion is overtaking the effects of technical advances on the cost structure of shelf development, and the decline from new gas wells there is now estimated to be as high as 40 percent per year. Fortunately, as the supply from the shallow waters of the shelf declines, that from the deepwater is increasing, at a sufficient rate to keep total production from the Gulf growing, although there is a question as to how long. The NPC report, prepared in 1999, estimated that this expansion would continue until 2010, when Gulf production would peak at 8 TCF/yr. An MMS report prepared last year estimated a somewhat lower peak, of 6.7 TCF, also by 2010. This year, new estimates from the MMS project a peak much earlier, in 2002, at a still lower level, 5.2 TCF/yr.

These numbers illustrate three points. First, they illustrate the growing importance of the deep water in OCS supply, which is rapidly transitioning to becoming the principal source of such supply. Second, they raise the possibility that the feasibility of sustaining this transition may well be decided in the five year window we are concerned with. The numbers suggest that the drilling and capital expenditures required to replace and augment reserves will become increasingly important, and that we must increase deepwater development. Finally, the transition to deepwater illustrates the importance of not losing sight of long term objectives as we focus on the next five years. That is, much of the shift to deepwater activity has occurred within the past five years, in part due to the farsightedness of Congress in passing the Deepwater Royalty Relief Act in 1995. It is essential that as the deepwater grows into the major source of Gulf supply, we not lose sight of the actions that need be taken today to sustain this growth. The MMS' OCS Policy Committee, Subcommittee on Natural Gas on the Outer Continental Shelf, concluded that unless exploration and development scenarios in the Gulf of Mexico change dramatically, the production forecasts such as those estimated by the NPC will not be realized.

The nation will soon have a great opportunity to sustain this growth. Federal OCS Lease Sale 181, in the Eastern Gulf of Mexico Planning Area, is scheduled for December 2001. The sale area is based on comprehensive environmental reviews, and consultations between former Secretary of the Interior Bruce Babbitt and then-Governors Lawton Chiles of Florida and Fob James of Alabama. Congress in the past several appropriations bills understood the importance of Sale 181 going forward and did not include it in the areas placed off-limits by moratoria. The area available in Sale 181 is estimated by the National Petroleum Council to contain 7.8 trillion cubic feet of natural gas and 1.9 billion barrels of oil. This means that natural gas from the Sale 181 area could satisfy the current electricity needs of Florida's 5.9 million households for the next 13 years. Moreover, the crude oil from the Sale 181 area (most of which is expected to come from the deepwater areas, far removed from the coastline) could fuel 74,000 cars for 20 years.

Finally, of both short and long term significance are the "consistency" provisions of the Coastal Zone Management Act (CZMA). Under the guise of due process and consultation, these provisions have caused serious duplicative and incredibly costly delays to federal OCS leasing and production activities that would have no adverse environmental impacts on states' coastal zones. And regulations issued by the National Oceanic and Atmospheric Administration (NOAA) in the last days of the Clinton Administration appear to add impediments to environmentally compatible energy development in the OCS, contrary to the balancing

of competing interests directed by Congress when it enacted the CZMA. Both the summary withdrawal of multiple use government lands without stakeholder consultation under the Antiquities Act, and the endless due process used by opponents to block federal offshore production that does not affect a state's coastal zone are extreme, and must be moderated.

Alaskan North Slope

A third area of concern to both short and long-term energy supply is the federal lands of Alaska's North Slope.

First, again we note that an area of growing current exploratory interest is the Northeast corner of the National Petroleum Reserve in Alaska, where a Federal lease sale was held in 1999, in which 133 leases were awarded. Eight wells have been drilled, and more are planned. Again, the activity we are now seeing in NPR-A and the prospective supply effects in the next five years is attributable to actions taken by the Federal government in the past five years. Likewise, actions needed within the current five year window should be designed to sustain the activity begun in the last one, including the planning of further lease sales within NPR-A.

While probably not within the five year window for new production, it is no less urgent that Congress authorize exploration on the small section of the Arctic National Wildlife Refuge (ANWR) that was specifically set aside by law for exploration in 1980. DOE's Energy Information Administration estimates that the ANWR coastal plain contains between 5.7 billion and 16 billion barrels of technically recoverable oil. The coastal plain provides the best prospect in North America for a new giant, Prudhoe Bay-sized oil field.

Summary

Increased access to Federal lands - in the West, offshore, and Alaska - is the single most important lever that the government holds to affect domestic oil and gas supply in the next five years and beyond. Increased access extends beyond the mere act of leasing property--it extends to removing barriers to the utilization of that property in a manner consistent with environmental protection, recognizing the fact that technology has greatly reduced the scope of conflict between energy development and environmental protection. Those in the federal government who are most familiar with our industry have lauded our technological advances. A 1999 DOE report, *Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology*, stated that, "... innovative E&P approaches are making a difference to the environment. With advanced technologies, the oil and gas industry can pinpoint resources more accurately, extract them more efficiently and with less surface disturbance, minimize associated wastes, and, ultimately, restore sites to original or better condition.... [The industry] has integrated an environmental ethic into its business and culture and operations...[and] has come to recognize that high environmental standards and responsible development are good business...."

To promote such growing access, there is a strong need for improved information on the access status of the existing resource base. We applaud the action taken in the last Congress when it reauthorized the Energy Policy and Conservation Act (EPCA) (Section 604) directing the Departments of the Interior and Energy and the Forest Service to conduct an inventory of the 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 bill so that adequate information will be available on resource availability. This is an important step in bringing about increased development of U.S. oil and gas resources and an important

component in any effective national energy policy.

The American public does not have to choose between domestic energy supplies and environmental protection. We can, as a nation, have both - and we cannot afford to heed those negativists who tell us otherwise. Meeting U.S. energy needs and protecting the environment are both critical to our nation's continued economic growth - and critical to achieving the future prosperity and well being we all seek. Our federal lands are an asset with multiple values, and the time has come to recognize that energy values play a significant role in that mix.

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