Committee on Resources

Witness Statement

STATEMENT OF DAVID J. HAYES, DEPUTY SECRETARY
DEPARTMENT OF THE INTERIOR
BEFORE THE COMMITTEE ON RESOURCES
HOUSE OF REPRESENTATIVES
ON RESTRICTING DOMESTIC EXPLORATION
AND DEVELOPMENT
OF OUR OIL AND GAS RESOURCES
April 12, 2000

Mr. Chairman, thank you for the opportunity to testify on the issue of domestic oil and gas resources and their impact on our national security. I understand that the Department of Energy will address the issue of the Administration's Energy Strategy in detail in its testimony, so I will confine my remarks primarily to the issue of oil and gas activities on Federal lands.

The Administration believes that the best interest of the American people and the oil and gas industry is served by a balanced policy consisting of promoting exploration and development where appropriate, protecting our natural heritage, and fostering the development of conservation and alternative energy sources. In that regard, the Administration supports the U.S. domestic oil and gas industry. We have supported efforts to increase oil recovery in the deep waters of the Gulf of Mexico; we have conducted a number of extremely successful, environmentally sound off-shore oil and gas lease sales; and we have opened the National Petroleum Reserve-Alaska (NPR-A) to environmentally responsible oil and gas development.

The Department of the Interior administers the leasing program for both onshore and offshore Federal lands. While domestic production of oil overall has gone down since 1989 largely due to the price of oil on the world market, production on Federal and Indian lands has increased and, as of 1998, accounted for 26.5% of domestic production, up from 16.3% in 1989. We have seen great successes on the Outer Continental shelf and have implemented policies to encourage continued production of onshore wells on Federal lands.

The United States now depends on oil and natural gas for nearly two-thirds of its energy needs. While the U.S. is mostly self-sufficient in natural gas, we currently import over half of the oil we consume. Because of this dependence, obtaining sufficient supplies of oil and natural gas at reasonable prices is crucial to our security and our economy.

Offshore production from the OCS is a critical component of the domestic energy supply and, during the last 10 months of 1999, accounted for more than 26 percent of the natural gas and 25 percent of the oil produced in the United States. Natural gas is expected to be a growing source of energy. The National Petroleum Council estimates that demand for natural gas will increase from 22 trillion cubic feet in 1998 to 29 Tcf in 2010. The present annual production of about 5 trillion cubic feet from the OCS will increase to about 8 Tcf. Most of this increase will come from deepwater production (that is, production from water

depths greater than 200 meters). The Gulf of Mexico OCS is expected to play a significant and increasing role in meeting the demand for natural gas. Currently, OCS oil and natural gas provide the Nation with about the same amount of energy as coal and twice as much energy as all the nuclear power plants in the Nation.

The surge in deepwater production combined with innovative approaches on the shelf have, for the first time, moved the Federal OCS into second place as a supplier of oil to the domestic market. The OCS alone contributes more oil to the Nation than any single State and is second only to Saudi Arabia, as a supplier to the domestic market. Since 1994, oil production in the Gulf of Mexico has increased more than 50%. Deepwater leases now account for about half of oil production and over half of the proven reserves in the Gulf. Currently, approximately one out of every ten barrels of oil produced in the United States comes from a deepwater field in the Gulf. These increases would not have been possible without recently developed technology that has allowed exploration and production in ever-deeper waters. Total Gulf of Mexico production is expected to increase through at least 2002. In addition, we currently are examining incentives that can be used in designing leasing systems for future sales to ensure continued interest in developing our OCS resources.

The Administration supports leasing, exploration, and development where appropriate as evidenced by the *Outer Continental Shelf Oil and Gas Leasing Program for 1997 to 2002* developed by the Minerals Management Service and approved by the Secretary. The leasing program is the first step in the process to ensures a reliable supply of domestic petroleum resources. And the statistics from the program are impressive.

- The combination of technological advances and legislative incentives like the Deep Water Royalty Relief Act (DWRRA) caused leasing in the Gulf of Mexico to increase almost ten fold between 1992 and 1997.
- From 1993 to 1999, 6,538 new leases were issued covering approximately 35 million acres of the OCS.
- More than 40 million acres of Federal OCS are currently under lease. Approximately 94% of the existing OCS leases (7,600) are in the Gulf, and about 1,500 of these leases are producing.
- Lease Sale 175 in the Central Gulf of Mexico, held on March 15, 2000, offered 4,203 blocks (22.29 million acres) for lease. We received 469 bids on 344 blocks. It was the ninth OCS lease sale held subject to the DWRRA. Indicative of industry's interest in shallow and deepwater areas, approximately two-thirds of the bids were on blocks in relatively shallow water with heavy bidding coming from independent companies.
- The proposed Eastern Gulf of Mexico sale recognizes the high potential for the development of the significant natural gas reserves in the area and the potential for an extension of deepwater development.

A survey of the issues from last month's *Oil Daily* provides further evidence of the positive results of the Administration's policy. Arabian Oil Company will boost natural gas output from a field in the Gulf of Mexico after discovering a new gas structure with estimated recoverable reserves of 30 billion cubic feet (March 14, 2000, p. 7). BP increased estimates of recoverable oil from the Alaska OCS Northstar field by 36 million barrels (March 16, 2000, p. 8). Day rates for mobile offshore rigs improved for a ninth straight month (March 21, 2000, p.7). Improvement in day rates reflects an increasing level of drilling and exploratory activity. Total Fina Elf announced its Aconcagua appraisal well is successful, confirming a deep offshore discovery made in January 1999 in the Gulf of Mexico (March 31, 2000). Finally, Forest Oil reported a significant natural gas discovery at South Pelto 6 in the Gulf of Mexico (April 6, 2000, p. 8).

Our efforts have not been confined to Federal offshore resources, however. The Bureau of Land Management (BLM) has taken a number of actions to encourage production on Federal onshore leases. Since 1993, BLM has -

- Issued over 28,000 leases and approved over 15,000 permits to drill.
- Completed an integrated activity plan/environmental impact statement for the northeast portion of the NPR-A. In 1999, the BLM held a lease sale offering 425 tracts on 3.9 million acres; the first such sale for the reserve since 1984. Oil companies paid more than $104 million in bids for the high potential oil and gas area.
- Implemented legislation changing competitive lease term from 5 years to 10 years, allowing lessees greater flexibility in exploration without endangering the lease.
- Concentrated its efforts on areas of greatest potential. Accordingly, BLM expects to process more than 1000 applications for permits to drill in the Powder River Basin this year.
- Refocused its planning efforts to meet industry's exploration and production demands. Reassessing and revamping its planning documents will provide greater certainty of access while reducing economic risks and potential for litigation. The revised BLM Planning Efforts will include rewriting its planning guidance to prescribe how stipulations will be determined and refocusing its efforts on ensuring quality, certainty and timeliness.

Our policies also have sought to provide economic relief to Federal onshore operators who have suffered during prolonged periods of low oil prices. BLM has provided royalty rate reductions for operators producing heavy crude to offset high costs of production. BLM also has provided royalty rate reductions for operators of stripper oil properties (leases producing less than 15 barrels per day) to provide an economic incentive to keep these properties in production. In 1998, a team representing BLM, MMS and DOE completed a study and recommended continuation of the program. In addition, BLM and the Forest Service agreed to use one bond to cover liabilities for operations on Forest Service lands, eliminating the requirement that operators buy separate bonding for BLM and the Forest Service. At the same time, we have taken steps to protect sensitive areas and resources from inappropriate activities, resulting in a policy that has balanced the nation's need for energy with a clean environment.

We are proud of the accomplishments of this Department with respect to production of oil and gas on Federal lands. The recent surge in oil prices has caused some people to suggest again that it is time to take additional measures, some of which are unacceptable to us, including, for example, opening of the Arctic National Wildlife Refuge to oil and gas activities. Rather than sacrificing the Arctic Refuge as a means to reduce oil prices, the Administration believes Congress should implement the President's long-term comprehensive plan to strengthen America's energy security.

Although the Prudhoe Bay oil production curve is declining, oil and gas exploration and production is strong on the North Slope. There are many new fields at different stages of exploration and development both onshore and offshore such as Liberty, North Star, Alpine, and Badami. The Department of the Interior recently made approximately 4 million acres available for oil and gas development in Alaska to the west of Prudhoe Bay in the National Petroleum Reserve. Last year we held one of the most successful lease sales since Prudhoe Bay. Winter exploration in NPR-A is taking place as we speak.

I would like to clarify a remark I made last week before the Senate Energy and Natural Resources Committee. The Arctic National Wildlife Refuge is the only part of the Arctic Coastal Plain closed by Congress to oil and gas exploration and production. Any other part of the Arctic Coastal Plain can be

opened by administrative action of the next Secretary of the Interior or State and local officials. There is a time and a place for oil exploration in Alaska, and the Department of the Interior has permitted environmentally sound oil exploration in approximately 4 million acres of the National Petroleum Reserve, an area set aside for that purpose. Drilling is not appropriate, however, in the Arctic National Wildlife Refuge.

The Arctic Refuge is the only conservation area in America that protects a complete spectrum of arctic and subarctic ecosystems, functioning in balance to perpetuate wildlife populations. The area offers more wildlife diversity than any other region of the Arctic. The Coastal Plain of the Arctic Refuge, the part of the Refuge being considered for oil drilling, is the most biologically productive part of the refuge and the heart of the refuge's wildlife activity. The Arctic National Wildlife Refuge was set aside in 1960 to preserve unsurpassed wilderness, wildlife, and recreational values. Opening the Arctic Refuge to oil development would threaten the birthing ground of thousands of caribou and important habitat for polar bears, swans, snow geese, muskoxen and numerous other species.

Recognition of the unique wilderness character of the Arctic Refuge and its coastal plain goes back a long way. In 1959, Fred Seaton, President Eisenhower's Secretary of the Interior testified before the Senate calling the proposed Arctic National Wildlife Range "One of the most magnificent wildlife and wilderness areas in North America . . . a wilderness experience not duplicated elsewhere."

Similarly, Secretary Cecil Andrus, in 1978, said: "In some places, such as the Arctic Refuge, the wildlife and natural values are so magnificent and so enduring that they transcend the value of any mineral that may lie beneath the surface. Such minerals are finite. Production inevitably means changes whose impacts will be measured in geologic time in order to gain marginal benefits that may last a few years."

A broad array of groups and individuals throughout the United States and Canada are united in their support for protection for the natural resources and wilderness characteristics of the Coastal Plain of the Arctic Refuge. Native villages subsist on the caribou and their lives and their culture are dependent on healthy caribou populations. The Canadian government, the National Congress of American Indians, the Tanana Chiefs Conference, the Council of Athabascan Tribal Governments, the Episcopal Church, and numerous other religious organizations support the protection of this refuge.

The proposal to develop oil in the Arctic Refuge has most often been justified on national security grounds. This argument is not persuasive, for the simple reason that no single oil discovery, even a large one, can be expected to fundamentally alter our nation's oil security situation or the world price of oil.

History has shown us that national efforts to improve energy efficiency and to buffer short term disruptions through the measures included in our comprehensive energy strategy have had much more impact on our oil security than have additions to domestic supply.

Recently, I have heard from advocates of opening the Arctic Refuge that there are16 billion barrels of oil there. The 1998 assessment of the area prepared by the U.S. Geological Survey found that there was a one in 20 chance of there being 16 billion barrels of "technically recoverable oil" in the entire area. Technically recoverable oil is that oil that can be recovered without regard to cost. To the best of our knowledge, we are unaware of oil being produced anywhere in the world without regard to cost. Economically recoverable oil, on the other hand, is the oil that ends up being produced.

In 1998, the US Geological Survey released a mean estimate of 2.4 billion barrels of economically

recoverable oil in the Arctic Refuge at an $18 per barrel market price in 1996 dollars, a figure higher than the average cost of oil over the last three years. Such a discovery would never meet more than a small part of our oil needs at any given time. The United States consumes about 19 million barrels of oil daily or almost 7 billion barrels of oil annually, with about 52 percent being met by net oil imports. Another statistic worth considering is that America has 2% to 3% of the world's known oil reserves. The OPEC nations possess 800.5 billion barrels, or 76% of the world's total reserves. In fact, just a few weeks ago, the U.S. Geological Survey issued a report estimating the total amount of future technically recoverable oil, outside the U.S., to be about 2,120 billion barrels.

Some would argue that with the technological advances over the last few decades that oil can be developed in an environmentally sound manner. It is true that industry has been able to reduce the impacts of oil development on the North Slope. Great advances have been made by using directional drilling to avoid critical habitat areas, smaller pad size, ice roads and winter exploration and development and reinjection of drilling fluids. Alaskans appreciate these advances and recognize a great difference between the Prudhoe Bay development in the 1970s and fields like Alpine where these advances have been put to work. Unfortunately, there are still major impacts with any oil development, particularly in an untouched wilderness.

All reasonable scenarios for oil development on the coastal plain of the Arctic Refuge envision roads, drilling pads, long pipelines, secondary or feeder pipelines, housing, oil processing facilities, gas injection plants, airports and other infrastructure. In addition, the USGS 1998 assessment found that oil in the Arctic Refuge appears to be spread out in several pools rather than in one large formation like Prudhoe Bay, making it harder to minimize the development "foot print."

Water in the Arctic Refuge is very limited, unlike Prudhoe Bay where surface water is plentiful. It takes approximately 1.35 million gallons of water per mile for ice road construction and 30,000 gallons per day to support a drilling rig. Each exploratory well uses approximately 15 million gallons. In the Arctic Refuge, ice mining and water diversion from lakes and rivers will be necessary and will likely result in negative impacts to fish and wildlife.

Air and water pollution and contaminated sites continue to be a serious problem in Prudhoe Bay and are inevitable with any oil development. Many gravel pads on the North Slope are contaminated by chronic spills. In addition, hundreds of old exploratory and production drilling waste pits have yet to be closed out and the sites restored. More than 76 contaminated sites exist on the North Slope and contractor performance has been spotty.

Prudhoe Bay is a major source of air pollution and green house gas emission along the Arctic Coastal Plain. Prudhoe Bay facilities annually emit approximately 56,427 tons of oxides of nitrogen which contributes to smog and acid rain. North Slope oil facilities release roughly 24,000 tons of methane. Industry has numerous violations of particulate matter emissions and has opposed introduction of new technology to reduce nitrogen oxides and requirements for low sulfur fuel use. The Alaska Oil and Gas Association even lobbied the Alaska State Legislature to exempt drilling rigs from air quality standards.

Oil development simply does not fit in the Arctic National Wildlife Refuge. Oil and gas development would cover this pristine area with an industrial spider web of pipelines, roads, and other facilities, not to mention the threats to air and water quality. Most Americans agree, the impacts to native culture, wildlife, wilderness, and the environment far outweigh the benefits of the oil potential of the area.

In short, Mr. Chairman, we believe we have a strong record of oil and gas production on Federal lands. We are opposed to turning to the Arctic Refuge for oil production. The President has already stated that he will veto legislation that opens the Refuge to oil and gas drilling. We believe that the best interest of the American people is served by a balanced policy consisting of promoting exploration and development, protecting our natural heritage, and fostering energy conservation.

Thank you. I would be glad to answer any questions you might have at this time.

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