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Written Testimony to the House Natural Resources Committee's Oversight Hearing on *"State Lands vs. Federal Lands Oil and Gas Production: What State Regulators are doing right"*

Chairman Hastings and Members, I am pleased to be here before you today to address an important issue facing our nation and to give the Committee a helpful perspective on how the "States are doing it right". Contrary to statements made by this Administration about how well the federal government is doing in oil and gas production, the facts do not bear out the truth as the States are doing a better job in exploring, developing and producing oil and gas from state trust and private lands.

According to an American Petroleum Institute report *"Employment, Government Revenue and Energy Security Impacts of Current Federal Policy in the Western U.S."*, three key indicators show that the policies of this Administration are negatively impacting the exploration, development and production of oil and gas on federal lands. Those policies manifest themselves in the number of new Leases issued, new drilling permits issued and new wells drilled.

In the report, new leases represent a real-time snap shot of how a given administration's policies translate into real action when it comes to energy production on federal lands. The report states "the number of leases sold is also one of the key indications of how private companies perceive the level of federal encouragement and commitment to oil and gas development. As for the number of new leases issued, during the period of 2009/2010, the number of new leases were forty four percent down (-44%) as compared to the period of 2007/2008.

The second key indicator are permits to drill, also down thirty nine percent (-39%) for the same time frame. Once a lease has been issued, a permit to drill must be obtained in order to proceed. The number of restrictive aspects can inhibit an operator from receiving a permit from the Bureau of Land Management (BLM). Those can range from the request for a permit, waiting months on BLM to conduct field reviews, consultation with Fish and Wildlife Service, notifying the public, NEPA compliance and others. This takes time and depending on the time limitations on the lease, could result in a lease expiring before a permit to drill is obtained. This does not give certainty to the industry to pursue permits with the federal government.

The third key indicator and most important are newly drilled wells, which are also down thirty nine percent (-39%). Going through the other key indicators don't amount to much if you never drill a well. According to the API report the slowdown in new leases, permits and wells drilled is attributable to the direction of current federal land policy. The Department of Interior (DOI) and the BLM have refused to follow the federal requirements that require timely action on important oil and gas decisions. And, the DOI and BLM have established a host of new rules, polices and administrative actions that are adversarial to energy production on federal lands.

One of the duties that I have had the honor of was presiding over the Western States Land Commissioners Association (WSLCA) representing 23 western states. This organization represents the largest active rotary rig count of the states including: Arkansas, Oklahoma, California, Louisiana, North Dakota, New Mexico, Montana and the most, Texas. According to a Baker Hughes report of the average of all active rigs for 2012, Texas accounted for nearly half, or 899 of 1,919 rigs. These western states account for more than 85% of all active rigs in the U.S. One topic that is continually discussed by WSLCA is how to change the mind set of Washington so the States can develop their school trust lands natural resources to provide revenue to their schools.

If you were in Texas today, you would think it is 1901 all over again as we are experiencing an oil boom in Texas. With the Barnett Shale, Granite Wash, Haynesville/Bossier Shale, Eagle Ford Shale and Permian Basin, Texas accounts for more than 23% of the domestic oil production in the U.S. The recently discovered Cline Shale is estimated to have more than 30 billion recoverable reserves of oil, more than Saudi Arabia had. It is important that Texas lead the way to energy independence for this country.

The State of Texas is doing something correct by the number of permits and active rigs currently working (see Exhibit A).

According to the Energy Information Agency:

- Texas was the leading crude oil-producing State in the Nation in 2011 and exceeded production levels even from the Federal offshore areas.
- In 2011, Texas's 27 petroleum refineries had a capacity of over 4.7 million barrels of crude oil per day and accounted for 27 percent of total U.S. refining capacity.
- Texas accounted for 28 percent of U.S. marketed natural gas production in 2011, making it the leading natural gas producer among the States.
- West Texas Intermediate (WTI), a grade of crude oil produced in Texas and southern Oklahoma and traded in the domestic spot market at Cushing, Oklahoma, serves as a benchmark for oil pricing.

Texas balances responsible development and production of its resources with protecting environment through the Texas Rail Road Commission (RRC). Founded in 1891, it began as

part of the efficiency movement at the turn of the century, and it set oil world oil prices from 1930 through the 1960s until it was replaced in 1974 by OPEC. The RRC is responsible for issuing permits for drilling. The RRC issues permits to drill within a week's time of an application. This allows an operator to move quickly to produce the resources on a lease.

It should be noted the states have memorandum of understandings with BLM that BLM requires the states to provide regulatory oversight of oil and gas operations to ensure there is no duplication of effort and redundancy of additional regulation.

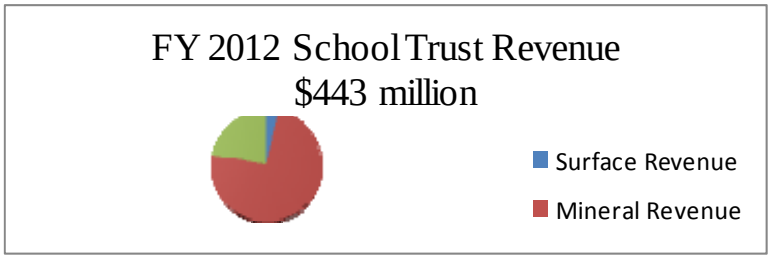
Texas, which entered the union as an independent republic, had no federal lands within its borders, so there were no federal lands to grant to the schools. They granted themselves lands in the Texas Constitution of 1845 and dedicated over 42 million acres to support public schools. My office, the Texas General Land Office, manages these lands. Just 740,000 surface acres remain in the trust and another 13 million acres of mineral lands. Mineral revenues from oil and gas are the primary sources of revenue to the trust. However, surface revenue contributes as well. (See the CLASS Report, Exhibit B)

In summary, the numbers speak for themselves. As for state trust lands, as well as private lands, permits can be secured more quickly and the process is less cumbersome than dealing with the federal government. In all categories, the States lead the way in leasing, permitting, drilling and most important, the production of oil and gas. This administration should look to the states and follow their lead if we are to become energy independent. Sadly, federal policies hamper the development of vitally needed energy. As our national economy rebounds, more energy will be necessary to meet demand. Vibrant economies need more energy. Increased drilling and production activities result in more jobs, as well as more revenue to the states and the federal government.

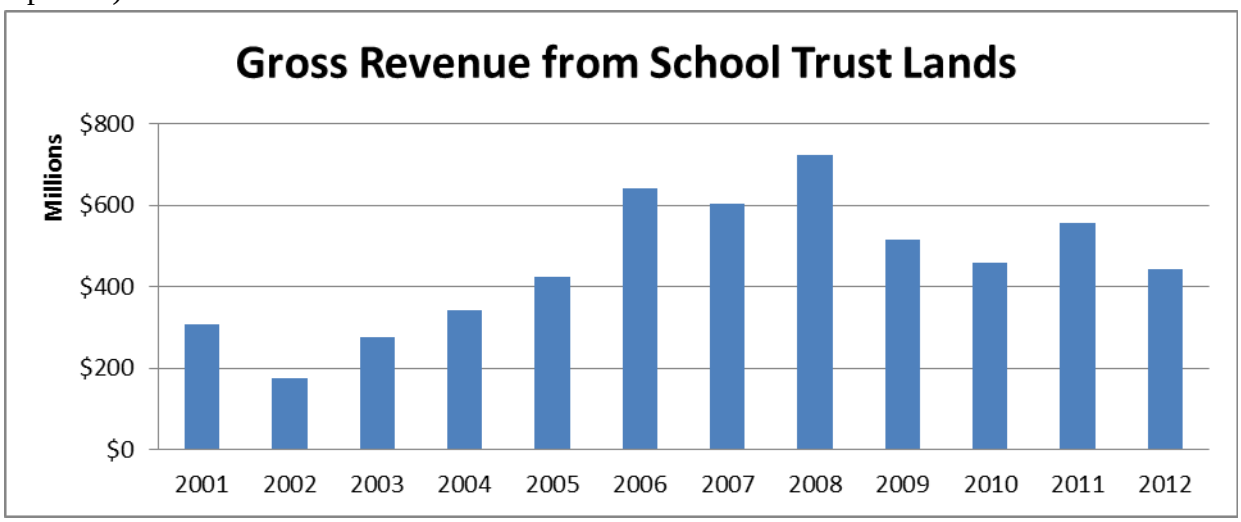
EXHIBIT B

TEXAS SCHOOL TRUST LANDS

When Texas entered the Union as a state in 1845, Texas retained all of its public lands. In 1873, the Texas Legislature set aside one-half of the remaining public domain to benefit public schools. The Texas Permanent School Fund was created with a $2 million appropriation by the Texas Legislature in 1854, expressly to benefit public schools in Texas. The Permanent School Fund consists of all land and all revenues derived from the land or other properties appropriated for the support of public schools. Today, the Texas General Land Office manages over 13 million acres of school mineral rights and under a million surface acres. Here is what was earned for schools last year:



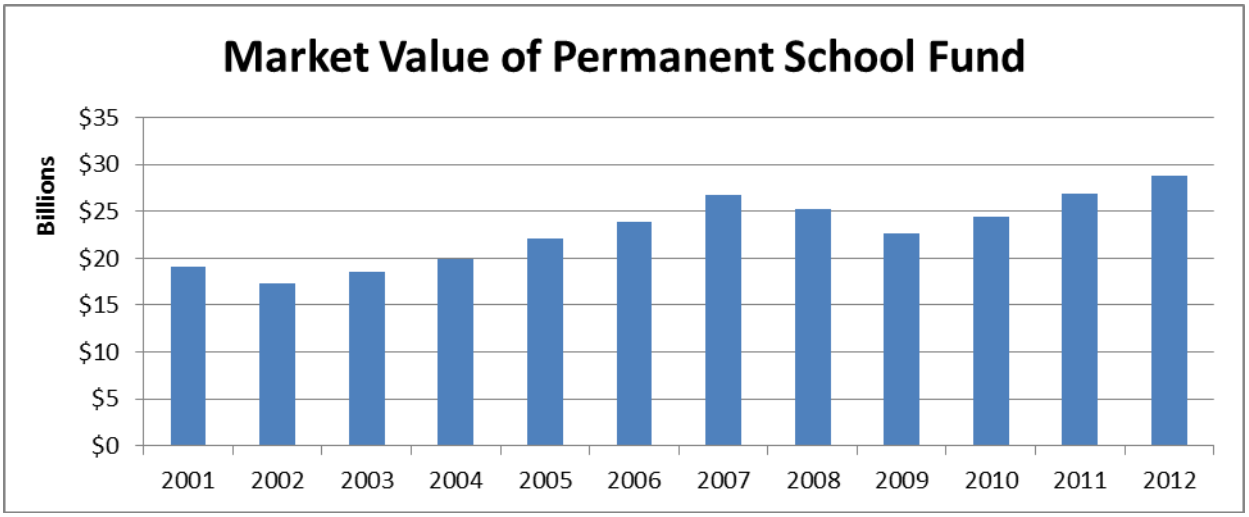
One can see that the largest revenue source is minerals. Over time the gross revenue (before expenses) has looked like this:



How does this revenue get to schools and benefit students? Under the direction of the Land Commissioner, the General Land Office takes the funds generated from the lease of lands that are used for extraction of gas and oil, as well as lands used for farming, grazing, and various other endeavors, and deposits revenues in the Permanent School Fund. The Permanent School Fund is managed to generate investment income that is distributed to local school districts on a per-pupil basis.

So for every dollar made from the lands, here is where the dollar went:

States that invest all of their revenue in their school fund have, over time, more money to support schools, just as people who save have more money over time than those who spend. Investments, compound over time, generate greater returns for schools when prudently invested. The Permanent School Fund has grown:



The $29 billion fund returned 9.45% total return from the investments. The land office generated $443 million from the lands last fiscal year and collected an additional $316 million from investment income. Of the nearly $760 million in revenue, approximately $20 million was spent to manage the lands and the rest was distributed to schools. Because of the careful management and investment of the funds within the Permanent School Fund, over $1 billion was distributed directly to schools.

The revenue from school lands and funds are used by schools differently in various states. Wisconsin funds school libraries, Washington builds schools in rural parts of the state, Arizona funds classroom needs, and Utah allows parents teachers and the principal on every school to develop academic programs to meet the school's most pressing academic need. All other states including Texas, put the investment distribution to schools into the overall education funding pot, usually reducing some other funding for education and supplanting it with the revenue from the children's trust.

Rotary Rig Count

04/12/2013

BAKER HUGHES

Location	Week	+/-	Week Ago	+/-	Year Ago
Land	1697	32	1665	-188	1885
Inland Waters	25	0	25	3	22
Offshore	49	1	48	6	43
United States Total	1771	33	1738	-179	1950
Gulf Of Mexico	47	1	46	4	43
Canada	156	-50	206	-8	164
North America	1927	-17	1944	-187	2114
U.S. Breakout Information	**This Week**	**+/-**	**Last Week**	**+/-**	**Year Ago**
Oil	1387	30	1357	65	1322
Gas	377	2	375	-247	624
Miscellaneous	7	1	6	3	4
Directional	206	3	203	-31	237
Horizontal	1102	18	1084	-43	1145
Vertical	463	12	451	-105	568
Canada Breakout Information	**This Week**	**+/-**	**Last Week**	**+/-**	**Year Ago**
Oil	83	-34	117	-5	88
Gas	73	-16	89	-3	76
Miscellaneous	0	0	0	0	0
Major State Variances	**This Week**	**+/-**	**Last Week**	**+/-**	**Year Ago**
Alaska	10	1	9	1	9
Arkansas	15	0	15	-11	26
California	39	0	39	-6	45
Colorado	59	0	59	-4	63
Louisiana	107	1	106	-19	126
New Mexico	80	-1	81	-5	85
North Dakota	178	4	174	-18	196
Oklahoma	185	6	179	-11	196
Pennsylvania	59	-4	63	-42	101
Texas	848	23	825	-68	916
West Virginia	24	4	20	2	22
Wyoming	42	-2	44	1	41