Statement of

Drue Pearce
On her own behalf

Oversight Hearing on
"Arctic Resources and American Competitiveness"

Before the U. S. House of Representatives
Committee on Natural Resources
Subcommittee on Energy and Mineral Resources

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Washington, D.C.

Good morning Mr. Chairman, Mr. Ranking Member, and members of the Subcommittee. I would like to thank you for inviting me to share my thoughts at this important oversight hearing about my home, the great State of Alaska, its role in making the United States an Arctic nation and the incredible resource potential of our Arctic OCS. I am proud to be an Alaskan and excited by the opportunity we have to significantly contribute to the competitiveness of our nation on the global stage.

I was honored to serve on the Coordinating Subcommittee of the National Petroleum Council's recently completed comprehensive study considering the research and technology opportunities to enable prudent development of our Arctic oil and gas resources. The study is entitled *Arctic Potential: Realizing the Promise of U.S. Arctic Oil and Gas Resources.* It provides a truly extensive integrated review of U.S. and global on and offshore Arctic oil and gas potential, the different Arctic environments, the operating history, policy and regulatory practices and development challenges and was developed over a full year by more than 250 incredibly hardworking people with relevant expertise. I was invited to join the committee based on my past experience; I served 17 years in the Alaska Legislature and was twice Senate President. I resigned my senate seat to join Secretary Gale Norton's immediate office at DOI as her Senior Advisor for Alaska Affairs in 2001 and then was deeply honored to be nominated by President Bush and confirmed by the other House in 2006 as the first Federal Coordinator for Alaska Natural Gas Transportation Projects. I left that position in 2010 to join Crowell & Moring, LLP as a Senior Policy Advisor with offices at home in Alaska and here in DC. For the record, I am not a registered lobbyist in either Juneau or DC.

I was a Freshman State Senator in 1989, with four years in the House Minority under my belt. I had landed in the Majority with a seat on the Finance Committee and also chaired the Oil and Gas Committee. Life in my little Committee was fairly quiet until that fateful early Good Friday morning when the Third Mate of the tanker vessel Exxon Valdez did not follow orders, lost situational awareness of his location and then made a deliberate and catastrophic turn starboard. Mr. Cousins ran the ship from a safe depth of water under the keel to hard aground on Bligh Reef.

Alaskans were angry but also incredulous. We watched in dismay as the situation was made worse by a series of events that were utterly preventable. I was angry when I learned that the Alyeska Pipeline Terminal executive in charge of spill response literally hung up, rolled over and went back to sleep after answering the phone call that brought news of the spill. I was enraged to learn that the considerable stockpile of materials and equipment on hand to deal with a spill were buried under some twenty plus feet of snow and ice and therefore not accessible. And I was infuriated by the complacency that led to that fateful night and its consequences to the environment, to Alaskans and to my state. There was plenty of complacency: by the Coast Guard, the State's Department of Environmental Conservation, the other TAPS owners, Alyeska, and even the Legislature among others. We were all to blame.

I vowed to do my best to ensure it never happened again. My Committee was sleepy no more; I suddenly had jurisdiction over the many spill prevention and response, financial responsibility, and regulatory bills that were passed by the Legislature in the years following the grounding. I am proud of our work: Alaska remains these 25 years later the State with the most comprehensive spill prevention and response laws and regulations in our nation. The underlying priority of all that work was the prevention of spills and that is our priority to this day.

The safety record of the oil and gas industry in Alaska since that morning has been excellent. The people of Alaska demanded an end to the complacency and the system we have in place to prevent transportation related incidents is second to none. Our prevention and contingency plan requirements for drilling, production and transportation are even more stringent than those of the federal government. As a result, we have an exemplary exploration and development record, with the prevention of incidents and oil spills being our top priority.

I'm not saying there have been no incidents. I had to roust Secretary Norton from bed to tell her that the lucky rifle shot of a drunken hunter had pierced the Trans Alaska Pipeline and that oil was spilling onto the tundra. Alyeska had a January valve leak that threatened to turn the oil inside the pipeline into a very long candle if it was not repaired quickly. And the Producers have experienced corrosion caused spills within the Prudhoe Bay field. We have learned from each of those incidents and I would note that each of them was transportation related.

It's important for you to realize that 2012 wasn't our first venture into the U.S. Arctic OCS. We have been here before. More than 15 wells have been drilled in the Arctic Alaska OCS, including all 6 in the Chukchi Sea, since March 1989. In fact, Shell spud at their Klondike prospect in July of 1989, less than four months after the Exxon Valdez. The Chukchi and Beaufort Sea wells were all completed without incident.

The most difficult part of writing those state laws and then providing oversight as the regulations were written was to find the balance that provided the environmental protections Alaskans demanded while enabling the prudent and economically viable development of the natural resources that provide Alaska's lifeblood. The level of risk of any human activity or resource development is never zero. So we had to decide what level of risk we were willing to accept and then ensure that the regulatory regime is commensurate with that level.

President Obama understands this concept; he described it on May 14 in response to a reporter's question about the approval by DOI of Shell's 2015 Chukchi Sea exploration plan by saying that "*when it can be done safely and appropriately, U.S. production of oil and natural gas is important. I would rather us -- with all the safeguards and standards that we have -- be producing our oil and gas, rather than importing it, which is bad for our people, but is also potentially purchased from places that have much lower environmental standards than we do.*"

"Safely and appropriately" are essential words in the President's comment. And in fact, one of the key findings of the NPC Arctic Research study is that ALL of the U.S. Arctic offshore that has been leased to date is developable today using existing field-proven technology. (See attached slide *Most U.S. Arctic Offshore is Developable Today.)* In addition, recently developed control and mitigation technologies provide a better safety net and lower the risk associated with oil and gas development than those control and response mechanisms required by DOI's Bureau of Safety and Environmental Enforcement (BSEE) and Bureau of Ocean Energy Management (BOEM) in their new Arctic Regulation package.

Oil and gas development in the Arctic is essential to diversifying the nation's energy supply and to promoting national security. However, if America is going to develop our own oil and gas for our use, we have to reach the balance that allows the development to be economically feasible. We cannot accept an imbalance that is stifling to future Arctic exploration. In order to meet the President's objective to have competitive Arctic resource development in our U.S. Arctic waters, we must address the deficiencies in that new Arctic Regulation package.

I recognize that you cannot legislate consistency. I also accept that our court system does not result in a requirement for consistency from one region of the country to another. And the lack of consistency between regulatory requirements on the North Slope of Alaska versus those in the Lower 48 is a constant annoyance to me.

The Arctic Regulations are yet another example of that inconsistency and I have to wonder whether their development was driven by an unspoken but very real determination to create unjustified barriers against future exploration efforts in the Arctic OCS in spite of the President's intent. Is the proposed rule intended to make exploration so expensive that it is not financially feasible to explore in our Arctic? Is it an accident that the proposed regulations are so markedly different from the prudent development standards described in the study, which was being developed at the same time as the regulatory package with an overlap of authors? Is the prescriptive nature of the proposed regulations a deliberate defiance?

Mr. Chairman, the regulations should be revised to incorporate the recommendations we included in the NPC's Arctic Potential Report so that the U.S. Arctic will be competitive and Industry will be allowed to explore and develop our resources in an environmentally responsible but economically feasible manner. The Report describes a balanced approach that is missing in the regulations.

The Arctic Study addresses a broad spectrum of issues and includes a number of key findings. (See attached slide *Key Findings*.) Among those findings is "Realizing the promise of Arctic oil and gas requires securing public confidence." The public will not be confident in the decisions being made by the regulators nor in the activities planned by Industry until our regulators works together with industry to perform analysis, investigations and any necessary demonstrations to validate new and advanced technologies. When government agencies don't participate in ongoing and future industry collaborative research programs such as the Arctic Response Technology Joint Industry Programme to evaluate and pre-approve oil spill response technologies, they are doing a disservice to your constituents and my fellow Alaskans.

The study also ratifies the utility of a performance based approach to regulation as described in Executive Order 13563 that provides that:

> to the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt.

The Presidential Commission Report analyzing the Deepwater Horizon incident specified a preference for performance based regulation. However, the new BSEE BOEM Arctic Regulation package ignores the direction of a number of Executive Orders and the Commission. It includes a number of prescriptive requirements for outmoded technology, many of which are not Arctic-specific and therefore do not meet the stated mission of their development. Nor do they serve to guarantee that the best available and safest technology is used in the Arctic.

Let me describe an example. I've mentioned a number of transportation related incidents that led to oil spills in this statement. I've also talked about balancing the risk profiles of the activities being permitted. It is a fact that most of the incidents of oil going into the water globally happen during the transportation phase of oil development. Pipelines break, ships run aground or drunks make lucky shots.

But the new arctic regulation package has a prescriptive requirement for a same season relief rig that disregards decades of offshore drilling experience, including in the Arctic. More troubling than that, the requirement for a same season relief well has resulted in the length of the drilling season to be dramatically shortened in order for this outmoded technology to be utilized in the event of an incident, never mind the fact that an incident is highly unlikely due to the shallow water depth and low reservoir pressures extant in the Chukchi Sea.

When Shell goes to the Chukchi to drill their Burger prospect this summer, the effort will include a virtual armada of vessels to provide support to the two drilling vessels. That includes two modern Finnish icebreakers, anchor handlers, supply ships, containment barges, response boats and many, many others. This fleet has to stage from Dutch Harbour through the Bering Strait to their Chukchi Sea theatre, a distance of about 1000 miles.

The new regulations would shorten the season to such an extent that an exploration well cannot be drilled to depth, tested and capped, assuming you're lucky enough to find something to test, in one season. That means the armada has to stage from south of the Bering Strait no earlier than July 1 and leave after the end of drilling in late September not once but twice to complete just one exploration well. It typically takes as many as six wells to delineate a field before a company can begin development permitting. So, the new regulations double the number of 1000 mile voyages each vessel is required to make to explore in the Chukchi, which at least doubles the risk of a transportation related incident. Mr. Chairman, that prescriptive requirement makes no sense. In fact, it results in endangerment of the very waters BSEE and BOEM say they want to protect. (See attached slide *Key Recommendations.)*

Mr. Chairman, the more than 250 people who collaborated to write the Arctic Study and agreed to make the recommendations it contains came from all sectors. We had Inupiat whalers, local

government leaders, subsistence hunters and fishers, small business owners, state and federal officials and regulators, industry experts, support industry specialists, think tank leaders, the environmental community, alongside me and a few others who are affectionately known as "Arctic Elders". The report is seminal because we came together and listened, we debated, we researched, we wrote, we edited, we yelled from time to time and some even shed a few tears. We were truly collaborative and the National Petroleum Council reported out another definitive piece of work.

That is in contrast to the Arctic regulations, which were written with little to no true collaboration and certainly without the honest debate of so many stakeholders. Mr. Chairman, that lack of collaboration is inherent in our regulatory system today and that must change. That is why the recommendations of the study include the calls for collaborative research, for collaborative analyses, investigations, and demonstrations to validate the newest and best technologies for every aspect of the exploration and development processes, for collaborative risk analyses and cost benefit analyses, and for the meaningful collaboration with stakeholders that will provide the public confidence that both industry and regulators alike are making good decisions.

Mr. Chairman, these new prescriptive regulations will not bolster the public's confidence nor will they provide the opportunity for the performance based approach to regulation called for by the President. And they certainly won't provide Americans or Alaskans the confidence they need in order for the industry to be given the license to operate in our Arctic waters. They do not allow us to meet the President's intent that the U.S. develop its own oil and gas rather than being dependent upon foreign sources. The promulgation didn't include collaboration and the resultant proposed regulations do not provide for the start of ongoing collaboration at an acceptable level.

The Alaskan Arctic OCS offers greater resource potential than any other currently undeveloped energy basin the United States and rivals global basin potential. If we are going to compete on the global stage and develop that enormous potential, we must revisit these regulations and take an entirely new approach to prudent development with the appropriate balances as described in the NPC study.

Thank you, Mr. Chairman and Members for your invitation and your time this morning. I would be happy to answer any questions.

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Attachment charts from the

U. S. National Petroleum Council
Arctic Potential Research Study

to the Statement of

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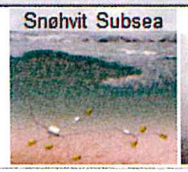
Most U.S. Arctic Developable Today

❖ **Most of U.S. Arctic Offshore Conventional Oil and Gas Resources Can Be Developed Using Existing Field-Proven Technology**

Increasing Complexity to Explore & Develop

Physical Ice Environment and Water Depth		Technology to Explore & Develop
Description	**Examples**	
Typically ice free, any water depth - *Minor first year ice intrusions, icebergs possible*	- South Barents Sea - Newfoundland	**Exploration & development proven** (Various drilling rigs, floating solutions, GBS, subsea tieback) Snøhvit Subsea  Hibernia GBS 
Any ice conditions, near shore & shallow water - *~<15m water*	- Globally, near shore (including US Beaufort and Chukchi Seas)	**Exploration & development proven** (Ice & gravel islands, concrete & steel structures, extended reach drilling from onshore) Spray Ice Island  Northstar 
Open water > ~2 months, any water depth - *Mainly first year ice, potential for combination of multi-year ice, icebergs and ice islands* - *Water depth determines development concept (greater or less than ~100m is key)*	- Sea of Okhotsk - Pechora Sea - Labrador Sea - US Chukchi & Beaufort Seas - South Kara Sea	**Exploration proven; development proven mainly in ~<100m water** Ice management required ~<100m development by GBS ~>100m development by floating drilling & subsea tieback Canmar Drillship  Sakhalin-2 GBS 
Open water <~2 months, any water depth - *Likely to encounter multi-year ice and/or icebergs, and in some locations ice islands* - *Water depth determines development concept, (greater or less than ~100m is key)*	- Deepwater Beaufort Sea - Deepwater Northern Russian Arctic Seas	**Exploration & development possible with technology improvements** Increased ice management capability and possible new technology
Limited to no open water - *Frequent multi-year ice with embedded icebergs, and ice islands*	- North East Greenland - Deepwater Northern Russian Arctic Seas	**Technology extensions or new technology required** Floating, robust ice managed solutions GBS / Subsea technology extensions or new technologies Difficult to mobilize equipment without open water season

Key Findings

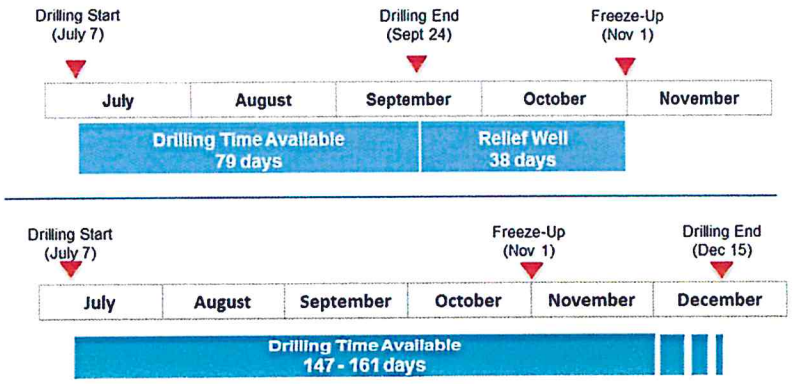
- Arctic Oil and Gas Resources are Large and Can Contribute Significantly to Meeting Future U.S. and Global Energy Needs
- The Arctic Environment Poses Some Different Challenges Relative to Other Oil and Gas Production Areas
- The Oil and Gas Industry Has a Long History of Success in Arctic Conditions Enabled by Continuing Technology Advances
- Most of the U.S. Arctic Offshore Conventional Oil & Gas Potential Can Be Developed Using Existing Field-Proven Technology
- The Economic Viability of U.S. Arctic Development is Challenged
- Realizing the Promise of Arctic Oil and Gas Requires Securing Public Confidence
- There Have Been Substantial Recent Technology Advancements to Reduce the Potential for and Consequences of a Spill

Key Recommendations

❖ Collaborative Research Needed To Improve Public Confidence

- Industry and regulators should work together to validate technologies for improved well control
- Government agencies should participate in ongoing and future industry collaborative research programs for oil spill response in ice, such as the Arctic Response Technology Joint Industry Programme, and oil spill response methods should be studied and pre-approved for use
- Industry, government, regulators should perform the analysis, investigations and necessary demonstrations to validate technologies / capabilities to safely extend the drilling season
- The Department of Energy and the Department of the Interior should assess the timelines to progress an offshore exploration program, compared with current U.S. lease durations

Drilling Season Length



Lease Length

Country	License / Lease System	Typical Well Count to Retain License / Lease	License / Lease Duration
Canada	Exploration Based	1 - 2	9 years
Greenland	Exploration Based	1 - 2	Up to 16 years
Norway	Exploration Based	1 - 2	Up to 30 years
Russia	Exploration Based	1 - 2	10 years
USA	Development Based	6 - 7	10 years