

Committee on Resources

Witness Testimony

Testimony of

CYNTHIA QUARTERMAN

Director

Mineral Management Service

Department of the Interior

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Mr. Chairman, thank you for the opportunity to testify on the Department of the Interior's Outer Continental Shelf (OCS) oil and gas program and OCS moratoria. Before discussing the issue of moratoria and the concerns that gave rise to them, let me briefly make note of the substantial benefits derived from the OCS program.

The OCS program contributes significantly to our Nation's energy supplies, accounting for about 24 percent of U.S. natural gas production and about 15 percent of U.S. oil production.

The OCS program also creates economic benefits, both regionally and nationally. Each year OCS bonuses, rents and royalties generate approximately \$3 billion in revenues to the Federal Treasury. Since 1954 when the Federal OCS program began, cumulative revenues from the program are more than \$110 billion. Coastal States where OCS production occurs within the 8(g) zone share in the bonus, rent and royalty revenues. In 1996, these States received \$45.5 million and cumulative payments total roughly \$2.4 billion. In addition, the offshore industry provides well paying jobs for tens of thousands of workers nation-wide. In turn, these workers pay taxes and create thousands of other indirect jobs. Hundreds of firms, large and small, across the country are involved in manufacturing the equipment, materials and supplies needed by the offshore oil and gas industry.

Since the early 1970's, when the Federal government instituted a new, more stringent regime of regulation, inspection and enforcement, the offshore industry has maintained an excellent safety and environmental record. Technological advances in drilling and production equipment and control techniques continue to make offshore operations safer and reduce the risks of spills. Further, it should be noted that more than 70 percent of the hydrocarbons produced on the OCS are in the form of natural gas, which has environmental benefits in both its production and consumption when compared to other fossil fuels.

Despite these benefits, the OCS program continues to be controversial in many coastal areas. In addressing the issue of moratoria before this Subcommittee today, I would like to show how the OCS program has evolved from the conflicts and controversies that led to the enactment of moratoria in the 1980's to the program that the Department is now managing based on consensus.

BACKGROUND

When Federal management of the OCS began under the authority of the OCS Lands Act of 1953, oil and gas activity was concentrated in the Gulf of Mexico off Louisiana and Texas, where the program was supported as an integral part of that region's economy. In the late 1950's and early 1960's there was some exploration in other areas off Washington, Oregon, California, and Florida but no commercial discoveries were made, except offshore Southern California. The 1969 Santa Barbara Channel blowout and oil spill drew national attention and started a groundswell of opposition to offshore oil and gas development. Subsequently, different imperatives environmental protection and our Nation's energy needs crystallized in conflicts that continue to affect the OCS program.

When the oil embargo of late 1973 and early 1974 brought about high prices and long waiting lines at gas stations, momentum shifted dramatically in favor of meeting energy needs domestically. The Federal government responded with an expanded OCS program, including areas where leasing and development activities had not occurred before.

The increased scope and pace of activity heightened concerns about the environmental and socioeconomic effects of offshore development. Citizens and governments in coastal areas demanded that they be consulted before the Federal government proceeded with its leasing and development plans. As a result, Congress enacted extensive amendments to the OCS Lands Act in 1978 to provide for more environmental consideration and more substantive involvement of State and local governments and others in OCS decisionmaking.

In 1979, the Iranian revolution and resulting oil supply disruptions and price increases renewed the sense of urgency for developing offshore resources. The Federal government responded with a plan that would make available the largest amount of OCS acreage ever nearly 1 billion acres for potential leasing, exploration, and development. That plan included numerous sales in frontier areas off the Atlantic coast, off the coasts of California and Alaska, and in the Eastern Gulf of Mexico.

The announcement of this plan sparked immediate and widespread opposition. Even though the new provisions of the OCS Lands Act called for increased consultation and coordination, many affected parties felt that their concerns and recommendations were not being adequately considered in OCS leasing and development decisions. As a result of their dissatisfaction, they increasingly urged Congress to take action to halt the OCS program.

In 1982, Congress, through the annual appropriations process, enacted the first moratorium as a means of delaying OCS leasing. The Department of the Interior was forbidden from spending funds on a proposed lease sale in Central and Northern California. In subsequent years moratoria were enacted for leasing and/or drilling for additional areas including portions of Southern California; the Mid, North and South Atlantic; North Aleutian Basin (Alaska); and the Eastern Gulf of Mexico.

In June 1990, then-President Bush announced a number of administrative deferrals with respect to the OCS program. Among other things, President Bush withdrew the entire Pacific coast (except for 87 blocks off Southern California); the North Atlantic; and the southeastern portion of the Eastern Gulf of Mexico (south of 26 degrees North Latitude) from leasing consideration until after the year 2000. Despite the withdrawal, Congress continued to enact moratoria for those areas, and even expanded prohibitions to some areas and activities that had not previously been subject to moratoria.

In addition to leasing moratoria, Congress also imposed annual drilling moratoria on existing leases in the Eastern Gulf of Mexico south of 26 degrees (beginning in FY 1989) and in the North Aleutian Basin offshore Alaska (beginning in FY 1990). Finally, in 1990 Congress enacted the Oil Pollution Act, including a provision (section 6003) prohibiting any prelease/leasing or drilling off the coast of North Carolina until certain conditions were met. This provision was repealed in 1996 by P.L. 104-134.

In May 1992, leases under OCS drilling moratoria became the subject of litigation in the case styled Conoco Inc. vs. The United States of America, which was based on breach of contract and constitutional takings claims. However, after considerable efforts by the Department of the Interior and the Department of Justice, in July 1995, all companies settled their claims to existing leases in the North Aleutian Basin and in the Eastern Gulf of Mexico south of 26 degrees. Therefore, no active leases remain in these areas. The North Carolina leases remain the subject of litigation related to previous moratoria (some companies have settled their claims to these leases) and a Department of Commerce decision upholding the State of North Carolina's denial of coastal zone consistency for a proposed exploration project.

Today, with the Administration's support, the provisions of the FY 1996 Omnibus Appropriations Act (P.L. 104-134) include provisions to prohibit the Department of the Interior from conducting "leasing and related activities" for areas placed under restriction in the President's moratorium statement of June 26, 1990, including:

North Atlantic
Northern, Central and Southern California
Washington and Oregon
Eastern Gulf of Mexico (south of 26 degrees North Latitude)

Additionally, Congress prohibited prelease/leasing in the following areas (or with regard to the following sales

contained in the current OCS 5-Year Program):

North Aleutian Basin
Eastern Gulf of Mexico; north of 26 degrees (Sale 151)
Mid-Atlantic (Sale 164)

The Administration has supported a continuation of these moratoria for FY 1997.

SOLVING CONFLICTS THROUGH CONSULTATION AND CONSENSUS

When this Administration took office in 1993, in addition to the leasing moratoria attached to the program, we were immediately faced with a number of problems related to existing leases.

- There were loud and widespread calls for canceling and buying back leases that had been issued in earlier years in the southeastern portion of the Eastern Gulf of Mexico, in the North Aleutian Basin, and off the coast of North Carolina.
- Thirteen oil and gas companies had filed a lawsuit that sought \$750 million in compensation for losses due to breach of contract and takings caused by moratoria on leases issued in the North Aleutian Basin off Alaska, in the Mid-Atlantic off North Carolina, and in the Eastern Gulf of Mexico off southern Florida.
- There were also existing leases off California and the Florida Panhandle that were not subject to drilling moratoria or litigation but were extremely controversial.

The Department decided that resolving conflicts in the program would be a high priority in our approach to managing the OCS program and that the best way to do so would be to work with stakeholders. As part of this approach, we endorsed the existing Congressional moratoria to provide assurances to stakeholders that the *status quo* would be maintained while discussions on various OCS areas ensued. We began the difficult process of trying to rebuild trust with all of our constituents by resolving disputes on existing leases through the settlement of litigation, as described above, and the cancellation of sales subject to moratoria, and took steps to establish working relationships to move us towards consensus, as described below. Our efforts culminated with the proposed OCS 5-year Program for 1997-2002. While we have not yet achieved total success in resolving controversies on the OCS, our efforts have been extremely fruitful in some areas, and we believe we have made progress in others.

Here is a brief status report on the areas that have been subject to moratoria or that have had other major conflicts.

The Atlantic Region

In 1990 then-President Bush withdrew the North Atlantic from leasing consideration until after the year 2000. Consequently, the current 5-Year OCS Program (1992-1997) does not include any consideration of leasing in this area.

The 1992-1997 OCS 5-Year Program had scheduled one combined Mid-and South Atlantic sale. However, in June 1995, as the moratoria continued in effect, we concluded that it would serve no useful purpose to retain the lease sale proposed in the schedule, and it was dropped.

With regard to the 53 existing leases in the Atlantic Region, which are the subject of litigation, three plaintiffs have settled their claims, but the leases are still subject to ongoing litigation. In March 1996, the Court of Claims found for the plaintiffs and held that the Federal government had breached its contract. The Court has not set the amount of actual damages on the claims of approximately \$320 million.

The proposed OCS 5-Year Program for 1997-2002 does not include a lease sale anywhere in the Atlantic Region. We believe that scheduling leasing in this region at this time would be premature, and there is general agreement on this issue among the stakeholders. No lease sale may be held in this area before 2002 because it is not contained in the proposed OCS 5-Year Program for 1997-2002.

This approach has been favorably received by the affected States. In responding to the proposed program, Governors expressed appreciation for the consideration their views had been given in formulation of the program. While most Governors in this area felt that it was best not to consider leasing at this time, they indicated their willingness to work with us to resolve outstanding issues.

Eastern Gulf of Mexico

As I mentioned earlier, the Administration has taken action to settle all claims with respect to existing leases in the area south of 26° North latitude, and no active leases remain in this area.

The current OCS 5 Year Program schedule had proposed to offer a limited number of tracts for sale in the western portion of the planning area. However, as the moratoria continued in effect, we concluded that it would serve no useful purpose to retain the lease sale proposed in the schedule, and it was dropped.

There are 64 existing leases in the Eastern Gulf of Mexico off the Florida Panhandle and Alabama, including the site of a significant natural gas discovery about 30 miles offshore. Over the last 3 years we have conducted an extensive outreach program in the area to provide residents with information on the history and status of offshore drilling in that area and on the Minerals Management Service's (MMS) role in ensuring safety and environmental protection and in inspecting well operations.

This outreach effort has included establishing specific points of contact in the MMS regional office and in the communities for exchanging information. These efforts have been well received by community leaders and residents, regardless of their views on offshore oil and gas activity. Since 1995, MMS regional personnel and I have spoken with over 150 individuals representing 75 groups in the area.

In the proposed OCS 5 Year Program for 1997-2002, we are considering one lease sale for the Eastern Gulf--off the coast of Alabama and more than 100 miles offshore Florida. We have worked very hard to carve out an area that we believe is acceptable to stakeholders.

Proposing leasing in this area epitomizes our approach in developing the new program and our overall vision for the OCS program in the future--one that is based on consensus and high quality science which is designed to make natural gas available to the Nation and the region using environmentally sound methods.

Pacific Region

Neither the current OCS 5-year Program for 1992-1997 nor the proposed OCS 5-Year Program for 1997-2002 includes any new leasing activities in the Pacific Region. As in the case of the Atlantic Region, we believe that scheduling leasing in this area at this time would be premature, and there is general agreement on this among stakeholders.

We are also working with stakeholders to address issues involving the 83 existing leases in the Southern California Planning Area, 43 of which are in production. Development of the remaining 40 non-producing leases is an important and sensitive issue to the stakeholders involved. The MMS regional office has established the Tri-County Forum which includes MMS, State agencies, and Santa Barbara, Ventura, and San Luis Obispo Counties to enhance communication among the Federal, State, and local regulatory bodies that deal with OCS oil and gas activities. One initiative that has come out of the Tri-County Forum is the California Offshore Oil and Gas Resources Study (COOGER), which is investigating onshore constraints to offshore oil and gas development. It is managed by a technical management team of representatives of MMS, the three counties, State agencies, and the OCS lessees and operators. It is jointly funded by MMS and industry.

The MMS also is working with the California State Lands Commission and the Pacific Offshore Operators on a joint technical study of the offshore Carpinteria Field located in the eastern Santa Barbara Channel. This is the only field in California that straddles the State/Federal boundary with production on both sides. The purpose of the study is to investigate the feasibility of maximizing oil recovery on both sides through the use of horizontal drilling from federal platforms.

Both the COOGER and Carpinteria initiatives are intended to develop by consensus of the affected parties, a plan for developing and producing existing leases in a way that is environmentally sound and operationally efficient. Since 1985, production from existing leases has doubled (to 200,000 barrels per day). This increase is due, in large measure, to our extensive interactions with affected stakeholders.

Other Areas

Although the Central and Western Gulf of Mexico Planning Areas and the Alaska Region (except for the North Aleutian Basin), have not been subject to moratoria, that does not mean we do not actively consult with stakeholders in these areas. Let me briefly describe our efforts to ensure that residents and state and local governments are involved in the OCS decisionmaking process. While the OCS program in Central and Western Gulf is supported by a solid consensus, the Department has consulted extensively with stakeholders to identify possible improvements. We decided to retain the annual areawide approach to leasing, and have worked with the affected constituents to make the presale evaluation process more efficient and easy to deal with. All Central and Western sales proposed to date in the current OCS 5-Year Program have been held. This includes the record-breaking Central Gulf Sale 157 this past April that was the first held in the region following enactment of the "OCS Deep Water Royalty Relief Act", which was strongly supported by this Administration. We have held workshops in the region and have consulted with the stakeholders in promulgating regulations under the new legislation. Just as in the other OCS areas, we are working diligently to ensure that the program is proceeding by consensus.

In the Alaska Region, we have had extensive consultations with affected stakeholders to accommodate their concerns and interests. Claims to existing leases in the North Aleutian Basin have been settled and no active leases remain in that area. Neither the current OCS 5-year Program for 1992-1997 nor the proposed OCS 5-Year Program for 1997-2002 includes any new leasing activities in the North Aleutian Basin. As in the case of the Atlantic Region, we believe that scheduling leasing in this area at this time would be premature, and there is general agreement on this among stakeholders. We have dropped sales in three planning areas: Chukchi Sea/Hope Basin, St. George Basin, Gulf of Alaska from the current OCS 5-Year Program. We also are looking at making changes to other sales in the current program to achieve greater stakeholder consensus.

Of particular note is the creation of the Alaska Regional Stakeholders Task Force by the OCS Policy Committee to improve the opportunity for local stakeholders to have early input into the MMS planning process for OCS lease sales. The Task Force was asked to make recommendations on the size, timing and location of lease sales to be included in the 1997-2002 OCS 5-Year Program. Task Force members included representatives from the Alaska Native, subsistence, and environmental communities; from the commercial-fishing, development and oil and gas industries; and from local, Federal, and State governments, Coastal Districts, and Coastal Resource Service Areas. Members were responsible for soliciting information from their constituents and local meetings were conducted throughout the state.

As recommended by the Task Force, the Proposed OCS 5-Year Program for 1997-2002 proposes two lease sales in the Beaufort Sea and one each in Chukchi Sea/Hope Basin, Cook Inlet, and Gulf of Alaska areas. We will use our experiences from working with stakeholders in the current program and incorporate them into the next program. For example, we have decided to incorporate traditional Alaska native knowledge in the programmatic final Environmental Impact Statement relative to all areas of Alaska, and the area proposed for leasing consideration in Cook Inlet does not include the Shelikof Straits. The Chukchi Sea/Hope Basin and Gulf of Alaska areas, both of which were dropped from the current program, mainly due to present lack of industry interest, are available for consideration in the Proposed OCS 5-Year Program for 1997-2002 in the event that future information and conditions might support their offering.

Other Efforts - Independent Review of Moratoria

At the Department's request, on November 8, 1995, the OCS Policy Committee and the OCS Scientific Committee of the Minerals Management Advisory Board established a Joint Subcommittee on Environmental Information for Select OCS Areas Under Moratoria to conduct an independent review and evaluation of areas under legislative and executive moratoria. The Subcommittee will assess environmental information and studies requirements in light of budgetary constraints, offshore oil and gas state-of-the-art technology, the offshore industry's environmental record, industry interest and the nature of the potential hydrocarbon resources in the areas under review. The Subcommittee is expected

to issue its report, which must be approved by both the Policy and Scientific Committees, this Fall.

CONCLUSION

The Department's approach to managing the OCS program under this Administration has moved the program a long way from conflict toward consensus. OCS moratoria have been only one of the many mechanisms we have used to reassure States and local communities that they will have an active role in making decisions about OCS activities off their coasts. In concert, these approaches have reduced the level of rhetoric and allowed us to begin a constructive dialogue concerning the future management of OCS resources.

The next OCS 5-Year Program for the years 1997 to 2002 is perhaps the best example of our commitment to consider the views of our stakeholders. Throughout the process we have been guided by three policy objectives endorsed by the Secretary and the President: consensus-based decision making; science-based decision making; and the use of natural gas as an environmentally preferred fuel. We intend to establish an OCS program that provides for environmentally responsible oil and gas leasing in selected prospective areas of the OCS where it appears there is sufficient industry interest, where other uses of the sea and seabed are not significant impediments to OCS program activity, and where there is agreement among interested and affected parties that consideration of leasing within that time frame is reasonable. As a result, we believe we will have a program that is in step with the public will.

Mr. Chairman, this concludes my prepared remarks. However, I will be pleased to answer any questions Members of the Subcommittee may have.

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