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

"Examining the Future Impacts of President Obama's Offshore Energy Plan"

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Introduction

Mr. Chairman and members of the Subcommittee, I would like to thank you for having this hearing to examine the Outer Continental Shelf (OCS) and the role it can play in helping America meet its energy needs and for inviting me to participate in the hearing to give an industry perspective examining the future impacts of President Obama's Offshore Energy Plan.

As Executive Vice President of Shell Exploration in the Americas, I lead a team of professionals who identify, invest in and explore for oil and gas resources. I have worked in the Exploration and Production industry for almost 30 years, and spent some of that time studying the U.S. Atlantic and Eastern Gulf of Mexico's resource potential. I can give an informed view of the these offshore areas, and also discuss why the Proposed Program should include more frequent and earlier lease sales in the U.S. Atlantic region and include more areas in the Eastern Gulf of Mexico that are adjacent to and on trend with existing infrastructure and production.

Shell appreciates and commends BOEM's careful analysis in the Draft Proposed Program (DPP). It clearly demonstrates the OCS's potentially enormous economic and energy value to the nation, which deserves a careful and serious evaluation in the ongoing five-year planning process.

This hearing is timely and, some might even say, urgent. Producing our natural resources doesn't happen overnight—we need to plan for production decades in advance. Today we are realizing the economic benefits from abundant domestic energy production that is possible because of decisions that were made years ago. We must continue to make decisions today that will allow us to continue to realize these benefits for generations to come.

World energy demand will double in the next 40 years. This demand can only be met if all sources of energy and efficiency are accessed. We cannot ignore that oil and gas will play a major part in meeting America's energy needs for decades to come.

As a responsible integrated energy company, Shell recognizes that access alone will not solve our energy challenges. We also need alternatives, renewables and effective mitigation technologies. However, the United States has vast oil and gas resources on the OCS—much of which remains under-evaluated and inaccessible.

Access to our natural resources will contribute to U.S. energy security and economic health by creating U.S. jobs, revenue, and energy security.

Based on the Bureau of Ocean Energy Management's assessment, the Mid and South Atlantic contains a resource potential of about 9 billion barrels, and the Eastern Gulf of Mexico holds about the same amount. Innovation and technology advances have accelerated exploration and production in deep water areas around the world, including in the Gulf of Mexico, however, deep water exploration has yet to start in the U.S. Mid and South Atlantic and in the Eastern Gulf of Mexico. Therefore, the socio-economic benefits from development of those areas are unrealized and will remain unrealized without a change in policy.

A critical step to including the Eastern Gulf of Mexico in the five-year program is to ensure that the required Environmental Impact Statements cover the Eastern Gulf of Mexico as well as the planned Mid and South U.S. Atlantic areas. The government must also move quickly to approve seismic permits so that new resource data can be collected. Seismic acquisition, properly mitigated, causes no harm to marine animals. Enacting Federal Revenue Sharing legislation which allocates bonus and royalty revenues to those coastal states with existing or planned offshore development is also an important and necessary step forward. This has been done successfully in the Gulf of Mexico.

Today, deep water exploration and production in the Gulf of Mexico follows the principle of multi-use—that is sharing waters with fishing and shipping interests and others, while maintaining safety and environmentally sound practices. Oil and gas exploration and production can be conducted safely, which the industry has demonstrated over the last several years with support and oversight from the Bureau of Safety and Environmental Enforcement.

The record clearly shows that offshore development can occur in an environmentally responsible way. We should demand no less.

There are those who suggest a "do nothing" approach to OCS development is the best choice. Perhaps they have an outdated view of how the oil and gas industry operates today. We do not have to choose OCS development *or* the environment. We can safely access OCS resources and be good environmental stewards.

I am hopeful that this hearing will advance discussions so we can come together around the facts, reject the myths and move forward on solutions that will help sustain our nation's future energy supply while fueling economic growth.

Today I will discuss three major points to highlight why new areas of the OCS should be made accessible for exploration.

- First, the vast U.S. oil and gas resources that can and must play a critical role in meeting future energy demand and in fueling the economy;
- Second, the oil and gas industry's ability to co-exist with other interests in our oceans; and
- Third, the renaissance of activities by other countries to secure investment in their OCS programs.

About Shell

Before addressing these points, let me provide some background information about Shell. We are an integrated oil and gas company, dedicated to meeting ever-growing energy needs efficiently and responsibly. Shell is one of the largest leaseholders in the OCS and one of the largest producers of oil and natural gas from Federal OCS leases in the United States. In the Gulf of Mexico, Shell currently operates seven major floating offshore facilities, (six deep-water tension-leg platforms and one ultra-deep-water spar platform); five fixed-structure facilities and platforms; numerous subsea production systems; as well as one of the largest contracted drilling rig fleets in the Gulf. We are also part owner of four producing projects in the Gulf operated by other oil and gas companies. Shell puts safety, sustainability, the global search for viable new energy sources, and innovative technologies at the heart of how we do business.

We have a robust portfolio in the Americas that consists of offshore and onshore exploration and production, unconventional resource development, oil products manufacturing and distribution, chemicals, LNG, hydrogen and renewables, including wind and biofuels.

Global Energy Demand

The world must grapple with the reality that global energy demand is projected to increase by roughly 50 percent over the next 20 years and could double by 2050. As the global recession continues to fade and economies recover, demand will accelerate. A key driver of increased demand will be strong economic growth and an enormous, emerging middle-class in developing nations.

To address this demand, we will need all sources of energy – oil and natural gas, alternatives, renewables – and significant progress in efficiency. Oil and gas will be the dominant energy source for decades. Renewables and energy efficiency will play an ever-larger role, but still not large enough to meet demand independently.

Shell is actively pursuing research and development into next-generation biofuels. We also have a wind business in North America and Europe.

Future growth for alternative energy forms will be paced by the speed of technological development, public and private investment capacity, government policies, and the affordability of energy supply. Still, it takes several decades to replace even one percent of conventional energy with a renewable source. The effort to tip the scale towards more renewable sources of energy is worthwhile; however, even unprecedented growth in renewables would leave an enormous energy gap that must be filled with reliable oil and gas energy sources.

Governments have a role to play in enacting policies that will foster a viable, efficient and workable marketplace that allows technology and innovation to move forward. Industry – and most particularly the energy industry – has an important role to play as well in co-creating solutions to continue to improve industry standards and operations, and operate in an environmentally sustainable way.

Benefits of Domestic Oil and Gas Development

The Gulf of Mexico has been a critical component of this country's energy supply for decades; however, oil and natural gas production in the Gulf will begin to decline in the latter part of this decade. In light of this decline, the Proposed Program plays a critical role in determining how domestic offshore production will evolve and what role it will play in 2030 and beyond.

Shell had hoped additional new areas would be considered and studied in the DPP. The DOI's decision to prematurely defer areas seems contrary to the OCS Lands Act directive to "make resources available to meet the nation's energy needs," and "to insure the extent of OCS resources is assessed at the earliest practicable time." The limited nature of the proposal also conflicts with the DPP's general conclusion that, with the advent of new safety measures adopted by government and industry, "offshore oil and gas development can be conducted safely and responsibly."

This country's OCS areas can help meet future energy demand and drive economic growth and prosperity.

- Global demand for energy will continue to grow, and existing and developing energy sources may well struggle to keep up with this increased demand.

- The U.S. has immense oil and gas resources on the Outer Continental Shelf, and it is within the government's ability to further reduce imported energy with more domestic supplies.

- Domestic oil and gas production provides energy security, creates jobs, generates federal revenue, and drives economic stability.

A 2011 study by Wood Mackenzie shows that developing the "off limit areas" in the United States could:

- Create more than 1 million new jobs; and
- Generate $127 billion in new government revenue by 2020.

An estimated 9.2 million people are directly or indirectly employed in the domestic oil and gas industry. This makes the industry one of the largest employers in the nation. The industry has some of the highest paying jobs in the U.S., about two times the national average. A growing oil and gas sector has a positive impact on many other sectors of the economy, such as iron and steel, aviation, electronics, agriculture, construction, chemicals, plastics, marine vessels, telecommunications, manufacturing, trucking and transportation. Most of these industries have expressed their support for expanded access to the OCS.

Every U.S. president over the last 40 years has encouraged Americans to become less dependent on foreign oil through conservation and alternative fuels. Today, breakthroughs in technologies and processes enable the industry to take advantage of our energy resources like never before, and using them to access the resources contained within the OCS will help our country achieve that goal.

According to General James Jones, Former National Security Advisor to President Obama, "A nation that fails to secure the energy its citizens and its economic engine need to keep functioning leaves itself vulnerable to external contingencies in a dangerous and uncertain world, and to the whims of foreign leaders and other actors who many not always have its interests at heart."

Domestic energy production is critical for the security and prosperity of the U.S. Money spent on domestic energy circulates in the U.S. economy, and increases domestic economic activity and jobs. OCS activity will also help address our national debt, bringing in hundreds of billions in federal revenues through taxes, royalties from oil and gas production and the economic activity that is stimulated as a result of exploration and development.

Competing with Other Nations

As the U.S. ponders future development of its OCS resources, other countries fortunate enough to be situated on the Atlantic coast are rapidly moving forward seizing opportunities. Most of them—in fact almost all of them—are actively exploring or preparing to explore for oil and gas off their coasts.

In this hemisphere, from Canada to Mexico to Brazil, countries are competing for private investment to develop their resources and realize the benefits of energy security, jobs and economic growth. When companies like Shell make decisions about where to invest and explore, each opportunity is weighed against others. If the United States adopts policies that prematurely remove areas and limit leasing opportunities, the U.S. diminishes our country's competitive edge for decades to come.

As you can imagine, the current price environment has the industry, including Shell, taking a very hard and strategic look at exploration activities and budgets. Decisions about where to explore are carefully weighed against other global opportunities, and restricting areas in the U.S. diminishes our country's competitive edge when compared to other nations. One example is in Nova Scotia, Canada, where about three years ago, offshore lease blocks were made available. Shell evaluated its global prospects and decided to compete for those licenses. We currently plan to invest $1 billion in seismic, research, exploration and development of the licenses. Since the U.S. Atlantic was not available in the U.S. leasing program, investing the dollars in the U.S. was never factored into the 15-year investment decision we made on the Canadian licenses.

The Gulf of Mexico has kept the United States globally competitive for decades. The U.S. stands to lose a lot if we don't make new acreage available.

Success in the Gulf of Mexico has been due in part to reliable and predictable access to new acreage over time—and the same consistency is needed in the Atlantic, Eastern Gulf of Mexico and other areas of the OCS.

Offshore Safety Standards

Shell's has demonstrated, in the Gulf of Mexico and elsewhere, that it can produce oil and gas safely and efficiently. Advanced technologies continue to help us produce more with a smaller environmental footprint. Technology enables us to find and produce oil and gas further from shore and at greater depths.

Since 2010, new regulatory requirements have raised the bar on safety and industry has made substantial changes in its operations to meet them. There is no question the industry must be held to the highest standards both for protecting the environment and protecting the health and well-being of our workers and the communities in which we operate.

Let me highlight some of the progress made by the Federal Government and industry:

- The Final Drilling Safety Rule is focused on minimizing the likelihood of an incident and addresses barriers that should be in place to prevent a hazard. Prevention is a top priority.

- Responding to an incident, should one occur, has been substantially enhanced with new, more stringent requirements for containment capability. The Marine Well Containment Company (MWCC), which Shell initially formed in partnership with three other oil and gas companies, is designed to do just that. The MWCC is a stand-alone organization committed to improving capability for containing a potential underwater well control incident in the Gulf of Mexico.

- The Center for Offshore Safety has been created to promote the safety of offshore operations and complements the government's regulatory role. The Center will provide an effective means for sharing best practices. Members will be subject to independent, third-party auditing and verification. The Center will operate around an existing safety framework known as RP75, or "Recommended Practice for Development of a Safety and Environmental Management Program for Offshore Operations and Facilities."

- The industry has also significantly increased its resources to respond to a major oil spill by adding vessels, equipment and personnel.

In addition to meeting regulatory requirements, a company must relentlessly foster and promote safety every single day. At Shell we call this Goal Zero. Everyone who works for us – both employee and contractor – is expected to comply with the rules; intervene when anything seems unsafe; and respect people, the environment and our neighbors. Compliance is not optional.

We have personal safety systems and procedures with clear, firm rules; simple "do's and don'ts" covering activities with the highest potential safety risk. We take this very seriously in every situation - from prohibiting our employees and contractors from using mobile phones in any way, shape or form, while they are driving, to obtaining authorization before entering a confined space. We're very clear about these rules and people who cannot comply with our "Life Saving Rules" do not work for Shell.

We also have process safety systems in place to manage the safety and integrity of our operations and assets. Process safety is also managed through a variety of tools, such as well and facility design standards; established "operating envelopes"; maintenance and inspection intervals for safety critical equipment; and effective Management of Change processes.

Our approach also requires that all our drilling contractors develop a Safety Case to demonstrate how major risks are properly managed. A Safety Case shows how we identify and assess the hazards on the rig; how we establish barriers to prevent and control the hazards; and how we assign the critical activities needed to maintain the integrity of these barriers. Further, it guides the rig and crews in risk management; and requires and confirms that the staff has the appropriate training and meets Shell's required competencies.

A Robust Regulatory Process Is Critical

Shell fully supports a robust permitting process. The bar for conducting safe and responsible operations is high in oil and gas exploration, and it should be. Shell fully understands and supports this.

We need a regulatory framework that is clear; and a regulatory process that is properly funded, efficient and robust. The process should lead to timely decisions, not "just-in-time" decisions. At the same time, permitting for oil and gas activity must be done thoroughly and based on sound science. Without that, legal challenges are likely and can also act to block a program.

Recommendations: How Do We Move Forward?

There is no question the Federal government has a critical role to play as a steward of our oceans. It also has a role to play in supporting the OCS leasing program and the sustainable development of our natural resources—as does the industry. To that end, Shell respectfully offers the following recommendations for your consideration:

- The U.S. Department of the Interior should include more lease sales in the Proposed Program for frontier areas, like the Atlantic, holding at least two lease sales—one sale early in the Program and one later, will allow companies to continue evaluating the resource in calculated stages, which is a lengthy process. The DOI should now schedule timely lease sales that will allow for prompt exploration of these areas. Without that, the nation will be challenged to satisfy future energy needs and to advance U.S. economic and national security interests. Decisions about the 2017-2022 Five-year Program will impact this country in 2030 and beyond.

- The Proposed Program must include access to broad areas of the OCS because not every lease has oil and gas and even where oil or gas is found, it may not be economic to produce. Specifically, the DOI should do what it did in in the 2010 plan – it should include the Eastern Gulf areas contingent on Congress lifting the moratorium.

- Shell supports the proposal to offer all Gulf of Mexico tracts twice a year. Such a proposal will provide flexibility for both government and private industry to respond to rapidly changing market conditions.

- Shell supports OCS revenue sharing for all states.

- Pursuing a serial exploration and appraisal program in a frontier area requires reliable and predictable access to new acreage over time. Shell encourages BOEM to issue a Final Program that provides industry the necessary certainty and predictability to support future OCS exploration.

- Federal permitting agencies must coordinate and streamline the permitting work. Multiple federal agencies are now involved in issuing multiple federal permits for a single offshore project. The regulatory process should not have open-ended timeframes that leave permit applicants without a clear understanding of permit timelines. Rather, the regulatory process should have firm timelines and clear milestones marking the path to permit delivery.

Conclusion

Oil and gas will remain critical sources of energy for decades to come. Regardless of what projections you review, the country will rely on fossil fuels for more than 50 percent of its energy supply through 2050 and likely beyond that point. Furthermore, there are broad and sustained benefits in developing our own domestic resources. By accessing our domestic resources, we will create jobs, power the economy, supply revenue to governments, and provide energy security. Keeping this economic value here at home, we can at the same time move forward with investments in the next generation of technologies and energy solutions that will power the future.

Thank you. I am happy to answer any questions.