

Committee on Resources

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**Statement of
Ted Hess
Manager, Human Resources
Apache Corporation**

on behalf of

American Petroleum Institute
Domestic Petroleum Council
Independent Petroleum Association of America
National Ocean Industries Association
U.S. Oil and Gas Association

at the hearing on

Aging of the Energy and Minerals Workforce

before the

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

July 8, 2004

Good afternoon Chairman Cubin and members of the Subcommittee.

I'm Ted Hess, Manager of Human Resources for Apache Corporation, one of the largest independent U.S. natural gas and oil exploration and production companies.

I'm pleased to be here today and to have this opportunity to speak briefly on Apache's experiences in attempting to meet the challenges of an aging workforce in a highly specialized industry sector – and to discuss our efforts to attract and retain high-caliber employees to meet our staffing needs in many areas of the United States and overseas. And because the issues we face are common to all of us engaged in the search for and production of energy to meet the country's needs, I am also testifying for all the other large independents of the Domestic Petroleum Council and the members of the American Petroleum Institute, the Independent Petroleum Association of America, the National Ocean Industries Association and the U.S. Oil and Gas Association.

In addition to my prepared statement I would also ask that several articles on today's subject and our industry's workforce efforts be made a part of the hearing record.

In 1999, the National Petroleum Council issued a landmark study entitled Natural Gas: Meeting the Challenges of the Nation's Growing Natural Gas Demand. The findings published in that report played a significant role in setting the stage for today's hearing.

That study stated plainly that "Aggressive Pro-Active Workforce Planning is Essential" and that "Without immediate action, impending shortages of qualified personnel are expected to hinder the ability of the producing sector to find and develop required gas supplies."

According to the NPC study, volatility in the exploration and production sector in the 1980's and 1990's was largely responsible for making employment in the sector a less attractive career alternative for many young people – as evidenced by the drastic declines in enrollment in undergraduate petroleum engineering and geoscience degree programs: 77% and 60%, respectively, between 1985 and 1998.

The situation we face today is essentially the same as it was in 1999. While we do not believe that this shortage of skilled personnel is reducing our ability to fulfill our obligations to find and produce oil and gas today, we are concerned that this problem will become more acute in the years and decades to come. Our industry takes this situation seriously and we will continue to do so.

I'd like to share briefly some of Apache's experience that, I believe, provides context to the findings of that NPC report and this situation generally. And our experience is not unlike that of others in our industry, on whose behalf I am also appearing today.

Apache's staffing philosophy has always been to run lean. We don't want to get caught up in excessive hiring in the up-cycle, only to have to lay people off in the downturns. Therefore, for many years our recruiting practice focused on highly experienced individuals – people we believed would “hit the ground running” as soon as they joined us, needing little if any time for initial training and development. For as long as there was an abundance of such people in the market, looking for new opportunities, this was a fairly cost-effective way of building a highly competent employee base.

The net result of this, however, is that the average engineer at Apache Corporation is about 46 years old. This doesn't mean that we have a good mix of people between 30 and 60. Rather, we've got what a colleague of mine referred to as the “egg moving through the snake”: a large number of people in their mid-40's to mid-50's, with 25 or more years experience in the industry – many of whom are hoping to be able to slow down or retire in the next 10 years. And that necessarily means that there are relatively few people waiting in the wings to replace them.

This issue is not limited to petroleum engineers and geoscientists. The demographic profile of our field personnel – the foremen, operators, and technicians who keep the oil and gas flowing day-in and day-out – is similar.

No doubt there are things that we could have done better and can do better to improve this situation. We and others in our industry must work closely and constructively with the oil field-degree granting institutions to attract more talented students to our field. We do not believe this is an area for more government programs.

But we do strongly believe that Congress and the Administration must provide a policy environment in which energy markets are less volatile and serious issues are addressed. Our country and our industry will be well-served by a comprehensive energy strategy that balances development of our domestic energy resources with sound conservation and renewable energy measures.

Beyond good energy policy, here are some of the things we are doing to address the workforce issues that we face. And, once again, others are doing similar things.

A few years back, the publication of the NPC study and other articles on this issue helped crystallize our own growing realization of the challenges that we faced as a result of an aging workforce. As a result, in the fall of 2000 we commenced a campus recruiting campaign, offering internships and full-time positions to young people studying petroleum engineering and the geosciences – a departure from our traditional approach of chasing experienced candidates.

Beginning with the class of 2001, we've brought twelve new engineers straight from the university into our engineering development program, giving these young people intensive hands-on experience and training through a series of six to twelve month assignments in the first three years of their career. Twelve engineers over four years may not seem like much in the abstract, but consider that those young people, with three or less years experience, now make up almost 20% of our total non-managerial engineering workforce in the U.S.

In terms of developing new talent, this program has proved more successful than probably any of us initially thought it would. As a result, we're now in the early stages of planning a similar program for geoscience graduates, and we're also talking with our operating regions about how to do the same thing for the critical field positions that I mentioned earlier.

In all the planning for this effort, we discussed the fact that this strategy was not only good for us as a company, but also good for the industry. We truly hoped, and hope, that we are contributing to an

environment that encourages more students to consider careers in this industry.

For example, since 2001 we've had far more students complete internships than we were able to offer full-time positions upon graduation. And we knew that would be the situation when we brought them in as interns. But we believed then and believe now that if students know that this kind of experience is available to them while they're still in school, they may be more likely to pursue or stick to industry-related majors. And we believe that other companies who may have been somewhat like us – preferring highly experienced candidates – may look at the practical training these students have gained and be more willing to give them an opportunity when they graduate.

In summary, Madam Chairman, we take the aging of our workforce seriously.

We are just one company and we know that we can't change the face of the whole industry. We will, however, do our part to attract and retain good employees at all levels. And we know that many other companies, small and large, are addressing these challenges in a similar fashion.

And we thank you and your Subcommittee for working toward good energy policy that can only strengthen the industry's efforts to maintain a vital exploration and production sector.

I would be glad to answer any questions.