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Testimony on the “Obama Administration’s De Facto Moratorium in the  
Gulf of Mexico: Community and Economic Impacts”  
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I would like to thank Chairman Hastings and Ranking Member Markey and the members of the House Natural Resources Committee for the opportunity to testify today. Americans are faced yet again with another round of increasing oil prices and the accompanying household budget crunches that come with higher gasoline prices and then the inevitable increases in the cost of everything else, like groceries. Being on the brink of recovery from the recession, this is the worst time for economy-weary Americans to have to put another notch in their belts. Our country is rich in energy resources and only bad policy decisions force Americans to shoulder the burden of higher energy costs as we try to dig out of the recession.

I appreciate the chance to discuss how the Department of Interior’s moratorium on drilling for oil and natural gas in the Gulf of Mexico has affected Texas, the entire Gulf States’ region and for all intents and purposes, all of America. I am Chairman of the Railroad Commission of Texas. The Railroad Commission (RRC) has been regulating the energy that comes from below the ground in Texas for over 100 years. Our jurisdiction extends to 3 leagues offshore or a little over 10 miles. Texas has a bifurcated system for handling the mineral interests of the state. If a company wants to drill a well in the bay, i.e. state waters, it goes to a lease sale offered by the Texas General Land Office. Then the RRC permits the well and oversees the technical aspect of it while the Land Office takes the money for the state. It is the same onshore too if state lands are involved. We also oversee surface mining of coal, we regulate the propane industry, but our largest division is oil and natural gas. Texas is the top energy producing state in the country for both natural gas and oil. I might as well mention that over 30% of all the natural gas and about 20% of all the oil that comes out of the ground onshore in America comes from Texas. That’s about 350 million barrels of oil and 7.7 trillion cubic feet of gas a year. The rules and regulations have been formulated, through rulemaking and statute, over the last one hundred years. The largest natural gas play in the country is in Texas, called the Barnett Shale. That is where the new technology has been

perfected that makes all the other shale gas plays possible. The Barnett Shale's standing as the largest shale play has become challenged by other big shale plays like the Haynesville and the Fayetteville Shale plays in Louisiana and Arkansas and that is great for America. The Bakken Shale play in North Dakota and the Eagle Ford Shale in deep South Texas are producing large amounts of oil and have arrested the decline in the US onshore oil production. What may be the largest natural gas shale play in the country, the Marcellus, is located in Pennsylvania and New York, and there will be other new shale plays discovered around the country. The drilling programs onshore in these places are bringing economic relief and increasing jobs to communities that have been hit hard.

There is an exciting future for clean burning natural gas if we will only start using it in a meaningful way... But even if we did make the most of the huge reserves of natural gas in this country, we are still going to need oil for generations to come. What is on my mind today is the oil that is under the Gulf of Mexico, the American jobs that it takes to drill and produce that oil, the American families and businesses that need it, and the federal coffers that could surely use the royalties and lease bonuses - now more than ever. My contention is that we have a moral duty to Americans to develop these resources and it is critically important that you who were sent here to represent the best interests of your constituents have some information about what is going on back on the front lines of energy production.

Basically, there is still a de facto moratorium against serious offshore drilling in the waters that surround the United States, the offshore Gulf of Mexico, offshore Alaska, wherever there is a potential oil and gas offshore resource awaiting the drill bit. That's simply the reality. "A rose by any other name would smell as sweet." One can call it what one likes, but basically there is still a work stoppage, an embargo if you will, on American companies working in America. Only one deep water permit has been issued since the moratorium was supposedly lifted. That permit to Noble Energy, the operator, was for a re-entry of a well that had already been drilled.

The statistics on a page don't truly reflect the lives that have been changed as companies lay off crews and send rigs overseas. Dun and Bradstreet did a study last summer and determined that of over 15,000 businesses in the five Gulf States impacted by a moratorium, approximately 98% of these businesses are considered small businesses. Six hundred and sixty seven of

them are classified as minority-owned, woman-owned, or veteran-owned and 97% are US-owned. These businesses employ over 153,000 employees with over 95% of them in Texas and Louisiana. These are the support businesses, the infrastructure if you will, that it takes to get an offshore well drilled. We are taking a great leap backward. Who is typically drilling these wells? Good solid American companies, large independents that find more oil and gas onshore and offshore than the majors like BP. They are the ones most affected. They can't pick up and go to Brazil to drill in their deep water and certainly the engineers, workers on the rigs, and the support services can't move to South America to help them recover their oil.

Louisiana State University's economist, Joseph Mason, conservatively reported late this past summer that due to the moratorium the Gulf Coast States would lose over 8,100 jobs, \$2.1 billion in economic output, and \$487 million in wages during the initial months after the moratorium. In a similar time period, Texas' share of that loss is almost 2,500 jobs, \$622 million in gross domestic product, and \$153 million in wages. Mr. Mason stated that the actual numbers would be larger over an extended amount of time. It doesn't take a rocket scientist to figure out that the more time it takes to issue permits the more likely these numbers could double and even triple.

These numbers don't even touch on the loss of energy at a time we need it the most to increase supply to help stabilize prices. With the instability in the Middle East and the current monetary policy, the last thing the market needs is less supply. The permitiorium in the Gulf of Mexico is affecting 30% of the domestic oil production and 13% of the natural gas. A one-year delay could result in a 500,000 barrel per day cut in world supply between 2013 and 2017. Not to mention the cost increase to get it out of the ground if new, unnecessary regulatory requirements are put in place.

It simply doesn't have to be this way. The talk of tapping the Strategic Petroleum Reserve is nonsensical when we have a reserve that is strategically placed with a lot more oil in it than the 727 million barrels that are being stored there.

Now I would like to discuss my experience as an elected steward of a state's energy resources. Specifically, I would like to show you how we create a culture of safety and productivity. Though it has evolved to address the modern day petroleum industry, we have cracked the code and I think that as you contemplate the future energy needs of the country, it wouldn't hurt to

look to the states, who have a vested interest in making sure their energy resources are responsibly produced. Our mission is to serve Texas by our stewardship of natural resources and the environment, our concern for personal and community health and safety, and our support of enhanced development and economic vitality for the benefit of Texans. As a part of our charter, among our main functions related to oil and gas exploration is the protection of the environment, our duty to protect public health and safety, the correlative rights of mineral interest owners, and to prevent waste of natural resources. As a disclaimer, I want you to know that safety and public health, as they should be, are our number one concern. I want to highlight that one of our statutory duties is that we must prevent waste of natural resources. Most people think of waste as a by-product that must be disposed of. We manage the disposal of oil field waste too, but this definition as it relates to our mission is contrary to that. It is that our program must produce our natural resources for the economic benefit of individual Texans and the state as a whole or else the hydrocarbons are wasted. This charter forces us to permit wells in a timely manner so that royalty owners get their money. One of the most prominent royalty owners in Texas is the state itself. These monies are used to fund education and our rainy day fund, which is a bright star in the fiscal profile of Texas.

Allow me to compare that charter to the Bureau of Ocean, Energy, Management, Regulation, and Enforcement's (BOEMRE) mission, which is to manage the ocean energy and mineral resources under the outer continental shelf (OCS) and other offshore waters of our country and to enhance the public and trust benefits, promote responsible use, and realize fair value. While these charges are admirable, the charge to manage mineral resources, rather than to prevent the waste of mineral resources, results in two very different approaches and outlooks. Our charter encourages us to work with citizens and industry to utilize every bit of minerals we have so that our schools stay funded and our budget stays balanced while individual Texans also get to reap the benefits of responsible energy production. BOEMRE's mission does not provide this opportunity. Its tone undervalues the need to take advantage of natural resources for the economic benefit of those who own them, the American people. Maybe there needs to be a cultural shift in ideology as it relates to how Americans view the mineral gifts that God and nature has bestowed upon them as blessings.

In Texas, our permitting process is comprehensive and efficient due to several reasons, one of which is that my fellow commissioners and I are

statewide elected officials. If our stewardship is not acceptable to the people of Texas, then we will be voted out of office. One of the most sensitive charges of our position is ensuring regulatory certainty and a fair and efficient permit process. It is our responsibility to clearly draw the lines of the playing field and the rules of the game, and it is private industry's responsibility to abide by those rules.

Once an application meets our standards then it is our responsibility to issue that permit in a timely manner. In fiscal year 2010, we processed over 21,000 applications. Due to continuing activity within the 3 shale plays, the Haynesville, Eagle Ford, and Barnett, we expect to match or exceed that count for fiscal year 2011. When fully staffed, our permitting division employs 11 people. A performance standard of 100 reviews per day has been initiated. We have received approximately 500 applications per week for the last 2 months. Our processing time is posted at the bottom of our website's home page. The approval performance is updated weekly. Our goal is to process expedited requests within 1 day and standard applications within 3 days.

I read a report from the Louisiana Oil and Gas Association on March 7<sup>th</sup> that before the Macondo blowout, BOEMRE permits were issued at a rate of approximately 10 per week. Subsequent to the lifting of the moratorium in October, BOEMRE has issued only one deepwater permit. This would never be acceptable to the voters and taxpayers in Texas.

Some may criticize our swift manner of permit issuance claiming that we lack a focus on environmental mitigation. Since 2005, only 0.0004% of our wells have experienced a blowout. The most recent total of wells we have in Texas is 394,600. Industry best practices and know-how on deck accounts for that low number. Any injuries related to drilling on the platform fall under the jurisdiction of the Occupational Safety and Health Administration (OSHA). To address environmental issues related to the drilling of the past, the Oil Field Clean Up fund was instituted in 1991 to remediate sites and plug abandoned/orphaned wells. This environmental program is our shining star in the Lone Star State. Few regulatory regimes globally can boast as much, and many call us for direction when establishing their own programs.

Our enforcement, penalties and compliance structure is quite different from the federal way of business. We do not like the idea of speed traps in the market place created to punish companies in order to drive up revenue in

low budget cycles; thus, our focus is on compliance. Penalties from enforcement actions do not go into the Commission's operating budget; those revenues go into the state's general treasury and our environmental clean up fund. That restriction allows us to focus on what is most important: the development of our natural resources while working with industry participants to ensure compliance with safety and environmental protection standards.

In conclusion, I would like to reiterate the economic facts. The OCS was conservatively estimated by the former Minerals Management Service to have undiscovered, technically recoverable resources of over 419 trillion cubic feet of natural gas and 86 billion barrels of oil. In 2009, the OCS was producing 27% of the entire US oil production. Further studies reveal that offshore activity in the Gulf of Mexico in 2009 generated almost \$70 billion of economic value and nearly 400,000 jobs. These are good paying jobs. According to the 2007 Bureau of Labor Statistics, oil and gas wages averaged \$93,575 per year. That is twice the annual pay of all other jobs in the US.

IHS Global Insight analysis states that the Gulf of Mexico offshore activities could generate as much as \$300 billion in governmental revenues alone in the next 10 years. These are revenues that could be utilized to invest in our future, as we invest them in Texas. Over 30 school districts' budgets in our state are more than 70% funded by oil and gas revenues. We do it right in Texas. By offering regulatory certainty, partnered with environmental protections and a culture that truly understands what it means to appreciate and utilize our region's mineral assets, we provide an economic engine that creates value and prosperity for all Texans. I respectfully urge you and your colleagues to provide the same for Americans everywhere across our nation.

Thank you for your time and attention. I look forward to addressing your questions.