

Statement of
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before the

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OVERSIGHT FIELD HEARING ON
"The Benefits of Offshore Oil and Natural Gas Development"

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Good Morning. My name is Greg Guidry. I am an Asset Manager for the Gulf of Mexico for Shell Exploration and Production Company. I was born and raised in Southern Louisiana – in Abbeville – and my family has been here for several generations. My career has been largely focused on oil and gas exploration and production in the Gulf of Mexico and along the Gulf Coast. I want to thank Chairman Gibbons and Congressman Jindal for inviting me to testify today on "The Benefits of Offshore Oil and Gas Development." It is a topic that is of great importance to Shell, to my family and my community.

Shell's presence in Louisiana goes back to 1916. We have over 4,000 full time employees in the state, many of whom work on offshore oil and gas development. Additionally, we have over 2,700 pensioners in Louisiana. Shell operates two refineries, two chemical plants, 459 retail stations, a major oil products terminal and numerous other facilities in the state.

The Gulf of Mexico is a significant petroleum province for Shell, one that we have operated in for more than five decades. These operations provide more than 80 percent of our oil and gas production in the U.S. Our net equity daily production in the Gulf of Mexico averages about 267,000 barrels of oil and 1.1 billion cubic feet of natural gas. We operate gross production of 450,000 barrels of oil and 1.4 billion cubic feet of natural gas per day. We hold an interest in approximately 723 federal offshore leases, more than 80 percent of which are in deep water.

Our strategy is to fully develop existing assets, aggressively explore for new material oil and gas opportunities in established areas, and continue to develop new emerging areas using sound geological work combined with leading edge technology.

Shell pioneered exploration in the deep waters of the Gulf of Mexico and used this deepwater strategy to find major fields in the Gulf such as Mars and Auger. Recently Shell has pioneered new plays with a hub-class discovery at Great White. We continue to explore in frontier areas of the Gulf of Mexico. These plays are very difficult to explore and produce. They are inherently high-risk with objectives that are either in ultra-deep water or deep formations on the shelf. They often involve high temperatures and high pressures. These areas are often geologically challenging and are very difficult to interpret using seismic data. To explore and produce in these areas we must use cutting edge technology. We plan to continue aggressively exploring for large volume, high-reward prospects in both the established plays and the new emerging plays.

Outside of the Gulf of Mexico, Shell has recently demonstrated a commitment to U.S. Outer-Continental Shelf frontier areas by being awarded 84 leases in the Alaska Beaufort Sea. Offshore Alaska presents a number of unique challenges, but we believe that, like the frontier areas of the Gulf of Mexico, there are major hydrocarbon sources there to be explored and produced.

I would like to thank Chairman Gibbons for his hard work on numerous excellent provisions that were included in the Energy Bill signed into law this week by President Bush. I want to especially thank him for his work on the inclusion of the Oil Shale Leasing provision, which may lead the way to the development of another frontier energy resource in the Rockies.

Protecting Coastal Environments

Shell has also committed itself to enhancing the environment of Louisiana and the Gulf Coast, both offshore and onshore. We are vigorously pursuing this through two primary initiatives. The Louisiana Wetlands Initiative and the Shell Marine Habitat Program.

To address the ongoing coastal erosion and disappearance of critical coastal wetlands and wildlife habitat, Shell has taken

a leadership role in public education and awareness about the issue. We are partnering with well-known NGOs, such as Ducks Unlimited, to sponsor wetlands restoration projects throughout Louisiana. Shell is also working with state and government agencies as world sponsor of the America's Wetland Campaign and serves on the Louisiana Governor's Coastal Advisory Commission. We are sole sponsor of the Shell Coastal Modeling Laboratory in the LSU School of the Coast and Environment. This laboratory is dedicated to understanding coastal loss and the effectiveness of mitigation measures.

Through the Shell Marine Habitat Program we are partnering with the National Fish and Wildlife Foundation to help nearly 100 organizations conserve and restore marine habitat throughout the Gulf Coast Region. Through this program Shell has spend \$5 million as part of a total of \$17 million donated for marine habitat conservation activities improving more than 160,000 acres of habitat and protecting more than 31,000 acres of key conservation lands. Projects include Ridley turtle habitat enhancement, oyster reef restoration, and sea grass recovery.

Additionally, Shell is a supporter of the National Marine Sanctuary Foundation. Through this program we have helped support and preserve important marine habitat. We have been especially supportive of the Flower Garden Banks in the Gulf of Mexico. One of the most beautiful and healthy coral reefs in the world, the Flower Garden Banks has existed for thousands of years and has thrived the last 4 decades with oil and gas production on its perimeter.

Shell is committed to sustainable development wherever we operate and we will continue to support habitat enhancement, education and research.

Benefits of OCS Activities

Many of the witnesses here today are speaking about the benefits of OCS activities on their businesses and communities. Shell believes that Louisiana and the U.S. as a whole benefit greatly from oil and gas exploration and production. At \$6 billion annually, oil and gas production on the OCS and Federal lands is second only to the IRS as a source of federal revenue. According to the Louisiana Mid-Continent Oil and Gas Association, offshore oil and gas production directly provides jobs for more than 21,000 employees, 16,725 of whom are Louisiana residents. The estimated payroll is \$1.2 billion averaging \$74,000 per employee, some \$10,000 greater than the national average salary. OCS producers pay about \$6 billion per year to vendors and contractors to support those activities. In Louisiana the share is more than \$3.7 billion. Those vendors employ an additional 55,376 people in Louisiana alone.

While the OCS is providing sound benefits for the nation's economy and for domestic supply we face a number of real challenges going forward. In order for future generations to continue to benefit from OCS energy production, we need to face some real challenges: decline in Gulf of Mexico production, access to new OCS resources and access to human resources and technology.

Decline in Gulf of Mexico Production

High decline rates in the Gulf of Mexico are not a new phenomenon; they have been a feature of the Gulf subsurface characteristics since offshore production began. Production decline rates in the deepwater Gulf can be steep and they require operators to be aggressive in leasing and to have high drilling success rates in order to maintain, let alone increase, their production. To offset these rapid declines, industry must develop technologies and efficiencies to maximize recovery and production. The U.S. government must provide access to new areas in the OCS. Policy makers cannot ignore the potential decline of the Gulf of Mexico production.

Access to OCS Resources

Access to oil and gas resources on the OCS remains a significant problem for future domestic production. Congressional moratoria place virtually all of the Atlantic and Pacific OCS in the lower 48 states off-limits for oil and gas production. Since 1982, congressional moratoria and administrative withdrawals have grown to cover 266.5 million acres. Today about 85 percent of the offshore area off the lower 48 states is off-limits to natural gas and oil development, areas that according to the National Petroleum Council contain trillions of cubic feet of recoverable natural gas resources. At the same time, as fields mature in traditional producing basins a greater percentage of future U.S. oil and gas production will need to come from the Federal OCS and Federal lands onshore.

In order to meet our long-term challenges we need to develop long-term goals for changing public perception and political will. Shell believes that the energy industry can do a much better job of helping the American public understand our industry and the contribution we make to the economy and society. We believe that to change political will we need to better educate the public about the oil and gas industry and energy's impact on our lives. We look forward to suggestions from Congress on how to implement and sustain a public energy education program.

While an education program can help us meet some long-term access challenges, in the short term we hope we may have an opportunity for greater access on the OCS. In the coming days Minerals Management Service (MMS) is expected to publish its scoping notice for the next Five-Year Plan. This important process will determine where oil and gas leases may take place on the OCS from 2007 through 2012. Shell is hopeful that the next Five-Year Plan will make additional offshore acreage available for leasing provided that appropriate environmental regulations are implemented to ensure that industry's disturbance is minimized and that biological resources and the environment are protected.

The Five-Year Plan process involves public comment. We encourage the Subcommittee on Energy and Mineral Resources and Congress as a whole to take an active role in advocating greater access to offshore resources during the Five-Year Plan process. We also hope that consuming industries, our partners in the service and supply sector, states, communities and NGO's can work together to find common ground for opening selected areas in the OCS. If we continue to not allow growth in the OCS for new leasing opportunities, our domestic oil and gas supply is at risk.

Meeting the Challenge of the Major Crew Change Ahead

People are the greatest resource we have in the oil and gas industry. It takes a lot of great minds from a number of disciplines to meet the challenge of finding oil and gas on the OCS. Many of the professions in our industry require a highly technical background in science and engineering. The number of U.S. students seeking degrees in these disciplines has fallen drastically over the past couple of decades. And fewer of those pursuing degrees in engineering and science are applying them to the oil and gas industry. Volatility in the exploration and production sectors during the past couple of decades made our business less attractive for many young people.

Between 1985 and 1998, enrollment in undergraduate petroleum engineering fell 77% and geoscience degree programs fell 60%. Despite the availability of well-paying jobs enrollment continues to decline and competition for these graduates is fierce. This has a direct impact on our industry's ability to expand and meet our nation's future energy needs. The average age of employees in the exploration and production industry is 47 to 50, with many long-term employees expected to retire at 55. As a result, industry is now facing what we refer to as "The Great Crew Change".

Shell would like to commend the House Resources Committee for holding a hearing last year on this important topic. We also appreciate that the Energy Bill mandates a study by the National Academy of Sciences and the Interior Secretary on the availability of skilled workers to meet America's future energy needs. We encourage the Committee to continue to be advocates for addressing workforce development.

In the meantime, Shell and the industry as a whole are working to utilize our resources to attract new talent to our industry. Specifically, Shell is:

- Deepening our internal talent pool through additional training and challenging assignments to ready younger workers to step up as senior workers retire;
- Broadening our access to talent through diversity initiatives; and
- Feeding the talent pipeline through support of math and science programs.

We want our efforts to benefit the community as well. Through our Robert Training and Conference Center, in Robert, LA, we are not only training our own employees for challenges in the field, we have opened up our facility to train and educate university students and spark their interest in careers in the oil and gas industry. We are working collaboratively with academia, local and state government in Louisiana, and Greater New Orleans, Inc. – a public/private partnership charged with spearheading economic development Greater New Orleans region -- to develop a Center for Petroleum Workforce Development in Louisiana to help address the crew change challenge.

By training, recruiting and employing a skilled workforce, we will have the human talent needed to develop and implement the technology needed to address the challenges we will face in the offshore frontiers.

Revenue Sharing

While states and local communities benefit from jobs, taxes and other sources of revenue that result from OCS oil and gas production, there are impacts from oil and gas development that communities must address. Infrastructure, such as ports, roads and bridges are needed to support industrial development. Environmental mitigation resulting from infrastructure development is another impact states and communities must face. Shell believes that historically revenues from OCS oil and gas production have not been adequately distributed to states and impacted communities.

Currently, states receive oil and gas revenues for oil and gas production out three miles off their coasts – production in state waters. Additionally, states receive a 27% cut of revenues in the so-called 8(G) zone, three to six miles off their coasts. Revenues from oil and gas production beyond six miles only go to the Federal government. Despite the fact that coastal states may be impacted by production beyond six miles, under the law, states are not able to directly receive financial benefits for offshore oil and gas production. Money from oil and gas production offshore and onshore should be made available to state and impacted communities. These monies could be used to infrastructure projects such as LA 1, a vital link between Port Fourchon and the rest of Louisiana and a vital corridor for the oil and gas industry.

The energy bill signed by the President earlier this week contained language that allocates federal oil and gas revenues to states like Louisiana to support a “Coastal Impact Assistance Program”. Shell appreciates the role that the Louisiana delegation played in making this concept the law. We believe that it is an important first step in the right direction. Shell supports going a step further by providing all states and local communities with a fair percentage of offshore production revenue from bonus bid, rents and royalties. Additionally, MMS and state agencies are decreasing budgets to meet despite increased demand to perform environmental work, monitoring, mitigation, and enforcement. We believe that OCS revenues – bonuses, rentals and royalties – should be disbursed directly to meet these requirements.

In total, Shell supports changes to current law that would:

- Provide direct OCS revenues from Federal bonuses, rentals and royalties to states and local communities affected by offshore oil and gas development;
- Provide direct OCS revenues from Federal bonuses, rentals and royalties to MMS for environmental work, for monitoring, mitigation, and enforcement; and
- Provide direct OCS revenues from Federal bonuses, rentals and royalties to a Marine Mammal and Coastal Wildlife Habitat Studies and Enhancement Fund to be utilized by state marine and wildlife management agencies and contractors as needed.

This same sort of initiative should also apply to the onshore oil and gas royalty stream. We look forward to working with Congress to support these concepts through legislation.

Thank you again for allowing me to testify. I look forward to answering any questions you may have.