

Gary P. Luquette
President, Chevron North America Exploration and Production Company
Statement prepared for the House Committee on Natural Resources
“Industry Perspectives on the Outer Continental Shelf”
February 25, 2009

Chairman Rahall, Ranking Member Hastings, Members of the Committee. My name is Gary Luquette and I am President of Chevron North America Exploration and Production Company. I am here to represent the more than 62,000 Chevron employees, of whom 27,000 work here in the United States, and the more than 1.5 million stockholders who put their trust in our company each day. Chevron’s broad portfolio of energy businesses include oil and natural gas production, refining and marketing of petroleum products, geothermal, and energy efficiency services. We are actively pursuing next-generation biofuels and other alternatives with a number of important strategic partnerships.

I lead the Chevron North America Exploration and Production Company, made up of over 5,000 employees working to deliver energy supplies from both onshore and offshore resources. We produce about 5 percent of United States oil and gas, and extend the limits of technology everyday, in areas such as the outer continental shelf of the Gulf of Mexico, to lengthen the life of existing assets and to deliver future supplies. While our company has a heritage going back 130 years, we are constantly reinventing how we explore for and produce energy.

Chevron invests in America. Last year we spent \$13.3 billion with our suppliers and other business partners in the United States purchasing goods and services from more than 11,000 large and small businesses throughout the country.

Chevron also strives to be a strong corporate citizen in the communities where we live and work. We invested in about 2,000 charitable organizations across 43 states and the District of Columbia. In 2008, our United States charitable contributions totaled over \$75 million.

I want to thank the Committee for holding this important hearing today. We believe development of a long term, strategic and comprehensive energy policy is a critical national priority. This hearing provides an opportunity to demonstrate the vital importance of America’s oil and gas industry today and for decades to come. It offers the chance to underscore how our industry works to address America’s greatest energy vulnerability, imports of foreign oil; the commitment of the U.S. energy industry to develop U.S. oil and gas resources; and the policies that need to be maintained or implemented to enable us to develop these vital resources in a prudent and orderly manner. Finally, today’s hearing highlights the critical role that the industry plays in addressing the current economic challenge faced by this country – through creating good, high paying jobs; increasing revenues to federal, state and local treasuries; and reducing our trade deficit and capital outflows by producing more energy here at home.

Energy is the foundation of America’s economic growth and global competitiveness and energy policy must ensure that American consumers and businesses have access to the reliable, affordable supplies of energy that underpin our economy, even as we use that energy more wisely.

Our country's role as a major consumer of energy is well understood, but fewer people understand the United States' strength as a producer of energy: the United States is the world's leading producer of refined petroleum products, electricity, nuclear power, wind power and ethanol; the second largest producer of coal, natural gas; and the third largest producer of oil.

Billions of people around the globe are working every day to increase their standard of living. This will cause an inevitable increase in global energy demand, and competition for energy resources will intensify. Accounting for production declines in existing oil and gas fields, by 2015 the world will need to replace as much as 45 million barrels it produces each day with new production.¹ By strengthening our own domestic production capability, the United States can reduce future demand for imports, improve economic and energy security, and be in a stronger position to lead global efforts to meet these challenges. Our country's leadership is essential.

Any comprehensive energy policy must also include emphasis on efficiency and conservation, which are the most immediate and cost-effective sources of "new" energy with no greenhouse gas emissions. As important as resource development is, the energy challenges we face cannot be met by addressing only the supply side. It is a focus for our company and we applaud the efforts of Congress to enact efficiency measures in recent legislation.

Stabilizing and strengthening our economy is a top priority and energy will play a central role in that process.

Affordable, reliable energy is the backbone of a strong and competitive economy. America's domestic oil and natural gas industry plays an integral role in the nation's economy. In addition to providing critical energy supplies to fuel our economy, the industry directly employs 1.8 million workers and an additional 4 million are employed in energy related jobs. Oil and natural gas operations provide billions of dollars of tax and royalty revenues to Federal, state and local governments - - \$152 billion between 2001 and 2006.² In fiscal year 2008 royalties, rents and bonuses alone paid to the Minerals Management Service (MMS) totaled \$23.8 billion. The industry also contributes hundreds of billions of dollars to the country's Gross Domestic Product (GDP). For example, in 2006 the upstream domestic oil and natural gas industry contributed around \$160 billion in GDP, more than the individual contributions of major industries such as agriculture, auto manufacturing, or computer and electronic product manufacturing.³

According to a recent study, development in the former moratoria areas of the Outer Continental Shelf, and other restricted areas in the Arctic National Wildlife Refuge and the Rockies would create 160,000 new jobs by 2030 and up to \$1.7 trillion in bonus revenues and royalties over the coming decades.⁴ Every incremental barrel of oil developed at home avoids the purchase of a barrel of imported oil, creates jobs, and provides incremental revenue to the government.

Even with the most aggressive development of renewables and alternatives, every major study of our energy future underscores the critical importance of oil and gas in meeting America's energy needs for decades to come.

While much attention has been paid in the public dialogue to replacing petroleum with alternatives like biofuels, even under the most aggressive scenarios for the introduction of biofuels and renewables, these energy sources will meet only a fraction of U.S. demand. The United States Energy Information Agency projects that even after the implementation of major efficiency initiatives, United States' liquids demand will increase approximately 5 percent from 2007 levels through 2030.⁵

Chevron has maintained for many years that it will take a new energy equation to address the United States' energy needs for the next several decades. We believe that we need conservation on a large scale, expansion of traditional energy sources such as oil and gas, and rapid development of alternatives and renewables. We live in an "And" world where we will need all energy sources to satisfy the growing global energy demand in a sustainable way.

Despite our strength as an energy producer, domestic oil production has fallen approximately 40 percent since 1985, while domestic oil consumption has grown more than 30 percent. The result has been a significant increase in our dependence on foreign oil. Today America has the ability to reduce its dependence and improve energy security through the prudent and sustainable development of oil and gas resources which until now have been off-limits. This can be accomplished through the time-tested existing Federal leasing and licensing programs.

Focusing on the subject of this hearing, the National Petroleum Council has estimated that 1 million barrels per day of oil and 3.8 billion cubic feet per day of gas can be brought on line over time from offshore areas previously and currently under moratoria. The total estimate may be increased over time as our understanding of the areas improves and as new technology enhances our ability to tap these resources. This is what has happened in the Gulf of Mexico. Between 1975 and 2006 the Department of the Interior published 8 comprehensive assessments of the undiscovered resource potential of the OCS. For the Gulf of Mexico, the estimates of undiscovered recoverable oil resources increased seven-fold during this time period and undiscovered recoverable natural gas estimates increased by more than four and a half times.⁶

The undeveloped OCS includes promising known prospects. For example, in the late 1980's, Chevron made a significant discovery of natural gas in the Eastern Gulf of Mexico called Destin Dome, approximately 25 miles off the coast of Florida. At the time, it was estimated that Destin Dome held enough natural gas to supply one million American households for 30 years.

Chevron and its partners, however, could not get permits to develop the field because of opposition in Florida and a maze of regulatory and administrative barriers at the federal level. After a long, expensive and frustrating effort to move forward, we relinquished the leases as part of a settlement reached with the government in 2002. This was not a good outcome for the government, industry, the workers involved in development and production of this gas, or consumers. We currently import little natural gas and can maintain domestic production for years to come, but only if promising resources like Destin Dome are made available and our comprehensive energy policy ensures that they can be brought to commercial production.

Developing domestic energy is an urgent challenge, but one that can be addressed through the joint efforts of this Committee, the Obama Administration and companies like Chevron.

Bringing these important resources on line will require a long term focus and stable policies to attract the enormous investments and drive the constant innovation and evolution of technology needed to responsibly develop the OCS. We need to start now. Chevron believes that swift action to initiate evaluation and development of offshore resources is important, and that the joint efforts of Congress, the Obama Administration, the states and companies like Chevron can address this crucial element of our energy strategy in a way that balances the need for energy with the many other considerations.

Already one of the largest producers in the Gulf of Mexico, Chevron is focused on developing new offshore energy supplies to help meet America's needs. These efforts are complex, costly, time consuming and often require the development of new technology. Our experiences provide important insights relevant to new offshore areas.

First, one of the most important factors determining the time and cost it will take to bring new offshore resources into production is proximity to infrastructure. The timeline for a frontier prospect that is far from existing support facilities and infrastructure can easily stretch to a decade or more from lease acquisition to first oil. Projects closer to infrastructure will generally offer shorter timelines. Second, technology today has improved our ability to locate and safely develop offshore resources.

The following are four examples of the effort and time needed to bring new OCS production to the market. These are Blind Faith, Tahiti, Buckskin, and Flatrock projects, all in the Gulf of Mexico. While the challenges are very real, we are grateful that we have the people, the technology and the financial resources to overcome these challenges and develop the affordable, reliable energy supplies that are so vital to America's competitiveness.

We started production at our new Blind Faith facility in 2008, seven years after the initial successful exploratory well was drilled. Total development time following lease acquisition was around a decade and, given the complexities involved in this project, this was a very aggressive schedule. The Blind Faith facility is located in 6,500 feet of water, and supports wells that are drilled more than five miles below the ocean floor. The wells themselves use remote subsea completion technology, allowing a single facility to produce a much larger area. The depth, high pressures and temperatures encountered in Blind Faith's reservoirs presented technical challenges. Developing the technology to solve these challenges has been a significant accomplishment and will enable us to bring an estimated 65,000 barrels per day of oil and 55 million cubic feet of natural gas to market each day.

Another project, Tahiti, further illustrates the challenges our industry manages in terms of timing, scale and cost. We acquired the Tahiti leases in the 1990s. In 2002, following years to complete evaluation and permitting, we used leading-edge technology to drill in 4,000 feet of water and found an estimated 400 million to 500 million barrels of recoverable resource. It has taken seven years to build the infrastructure required to produce the oil and gas from more than 100 miles offshore and five miles deep. When Tahiti comes online this year, we will have invested \$4.7 billion -- and dedicated personnel and resources for over a decade to manage exploration, permitting, engineering and development -- before realizing \$1 of return on our investment. Once in production, Tahiti is expected to add 125,000 barrels of oil and 70 million cubic feet of gas per day to the U.S. domestic supply, and is expected to produce for decades to come.

Just this month we announced another significant milestone -- a new deepwater oil discovery in the Gulf of Mexico at the Buckskin prospect, located in 6,000 feet of water depth approximately 180 miles southwest of New Orleans and 44 miles west of Chevron's 2004 Jack discovery. The Buckskin discovery is confirmation that our efforts to explore this geologic formation called the Lower Tertiary trend will help provide new U.S. oil and natural gas supplies. Buckskin, like Tahiti and Blind Faith, will take time to develop but we are optimistic that it will further bolster the nation's domestic energy supplies.

Not all of our activity is focused in the deep water of the Gulf. We are also working hard to maximize resource recovery from more mature areas. Last year, working with our partners, we announced commercialization of a new deep gas discovery known as Flatrock, located in just 12 feet of water deep below existing shallow reservoirs. Applying modern 3-D seismic data and state-of-the-art analysis, we identified deep gas reservoirs close to our production facilities in the Tiger Shoal area offshore Louisiana. While the deeper resources required drilling wells to depths of 18,000 feet and application of new technology to safely manage the higher temperatures and pressures, due to the proximity to existing infrastructure, we were able to bring three producing wells into service within a year of discovery and are continuing to work on additional development in the area.

As we consider our approach to the undeveloped OCS, it is clear from these examples that proximity to infrastructure should be one of the factors governing selection of priority areas. The undeveloped OCS is unlikely to yield prospects with the timeline of a Flatrock, but those we can identify that are closest to infrastructure represent the resources we can most quickly develop and that will serve as the foundation for more extensive exploration and development.

Finally, these four examples represent projects that were simply not feasible a couple of decades ago. They are possible today thanks to remarkable innovations in technology, equipment and processes. This ability to innovate and apply sophisticated new technologies holds promise for continued success, maximizing the potential of U.S. resources.

Chevron recognizes the importance of operating in an environmentally responsible manner and in a way that accommodates other uses of federal lands and waters.

Just as our ability to identify and develop resources has evolved, so too have the equipment and procedures we use to safeguard the environment. The oil and gas industry has proven, especially in the last 25 years, that it has the technical capability and safety procedures in place to minimize the risk of adverse impact on the natural environment. Successfully drilling deep wells in water depths exceeding 5,000 feet is one example of industry's ability to operate without adverse environmental impact. Even more impressive is the record of the offshore industry during hurricanes in 2005 and 2008. These storms adversely impacted hundreds of surface facilities, yet industry technology such as subsurface safety valves and safety procedures to shut in and evacuate production facilities in advance of the storms protected our workforce and the environment by preventing major oil spills from the impacted wells.

We also have developed ways to reduce the visible footprint of our projects and produce offshore assets with fewer permanent surface facilities. Directional drilling and the ability to install subsea completion and gathering systems greatly extend our reach from surface facilities, or eliminate the need for them altogether.

America's efforts to reduce foreign oil dependence must include the continued prudent and responsible development of federal resources, including development of resources in areas of the OCS recently under moratoria, through the MMS mineral development programs that have been in place for many years.

Expiration of moratoria has created the potential opportunity to apply advanced exploration and production know-how in unexplored parts of the OCS, but it is important to note that removal of a moratorium does not create immediate or uncontrolled access to these offshore areas. MMS resource development programs, in place for over 25 years, provide the Secretary of the Interior with the tools, authority and flexibility to manage a balanced program of energy development. The leasing process is methodical, balances mineral development with other considerations, provides robust environmental safeguards and includes multiple opportunities for stakeholder input.

We believe the question before this Committee and Administration is how best to implement and sustain a thoughtful development strategy in former moratoria areas.

The areas involved are vast. Both industry and government resources must be deployed in a prioritized manner to maximize the effectiveness of this strategy. The procedures to do this are in place. A carefully planned and phased approach to developing former moratoria areas is the critical next step, utilizing the MMS 5 year leasing program process that has proven a successful approach to offshore development. We offer several recommendations for consideration:

1. Lift the statutory moratorium on the Eastern Gulf of Mexico

The eastern Gulf of Mexico remains under a moratorium imposed under the Gulf of Mexico Energy Security Act of 2006. The most important action Congress can take to enhance our energy security is to lift this moratorium. The GOMESA restriction impacts areas with the best known prospects that are relatively close to existing infrastructure, including Destin Dome.

2. Reject calls for new moratoria and similar restrictions on OCS development.

Removal of the Presidential and Congressional moratoria in 2008 was a positive first step toward responsible OCS development, but additional steps are needed. Without understanding the process, many consider “available for leasing” to be synonymous with “already leased”. Nothing could be further from reality. The MMS is charged with determining which areas within a given Planning Area will be offered for lease. It does so, balancing resource potential, commercial interest, environmental and other considerations, including the views of the states, using a methodical process. There are at least six public input steps as well as specific reviews with the states and Congress between the initiation of planning and an actual lease sale. Once a lease is issued there is additional planning, review and approval required before an exploratory well can be drilled. It can easily take five years from OCS program planning inception to that first well. As we approach the very real need for energy and the economic benefits that accompany domestic production, we urge Congress to reject proposals that arbitrarily remove areas from this careful process by reinstating moratoria in whole or in part.

We also urge rejection of policies proposed as compromise but that carry the same effect as a moratorium. For example, arbitrary buffer zones, restricting access within a set distance to shore, risks functioning as an outright moratorium. A 50 mile buffer zone, which has been proposed, would remove from consideration the best known prospects in the undeveloped OCS and, according to MMS data, severely reduce the potential resource available. It would also tend to push all development farther from existing infrastructure. MMS can fulfill its role most effectively when it is free to evaluate and identify those resources that can be developed most effectively, efficiently and safely.

3. *Pursue development of new OCS resources with a thoughtful, prioritized approach.*

Chevron supports a phased approach to developing former moratoria areas, moving quickly to include highest priority areas in the MMS 5-Year Leasing Program currently under development for 2010-2015. There are 26 Planning Areas in the OCS. Due to practical constraints, it is unrealistic for either MMS or the industry to immediately focus on all of the former moratoria areas while simultaneously continuing development in existing accessible planning areas. A strategic approach to phasing in evaluation and leasing, starting with the most prospective areas and those closest to existing infrastructure, makes the most economic sense and will help bring on new domestic oil and natural gas as soon as possible. Through the stakeholder input process, MMS will be able to identify those Planning Areas with the highest level of interest which in turn may contain the greatest potential for commercial discovery of new domestic offshore resources.

4. *Facilitate the acquisition of more modern resource assessment data (including seismic) to better inform development choices in previously unexplored areas.*

Decades of oil and gas access restrictions to most of the OCS have precluded not only drilling, but also any pre-leasing activity including collection of seismic data. MMS estimates, based on limited amounts of older data such as wells, cores and seismic surveys, indicate substantial resource potential exists, but the scarcity of comprehensive modern information using improved evaluation technology makes these estimates highly speculative. More extensive and better data is needed to update estimates of total resource potential, guide government efforts to implement an effective leasing program, and to improve our ability to identify and focus on the most promising prospects first. Congress can facilitate the gathering of this data by providing adequate MMS budgets to allow them to do this work and to establish a mechanism where companies can contribute to pre-leasing data collection.

5. *Preserve the existing MMS planning and leasing framework.*

MMS OCS mineral development programs in place for over 25 years provide the Secretary of the Interior with the tools, authority and flexibility to manage a balanced program of energy development. The leasing process is methodical, balances mineral development with other priorities, provides strong environmental safeguards and includes multiple opportunities for stakeholder input.

6. *Avoid arbitrary and unnecessary due diligence provisions.*

Simply stated, both the existing regulatory process and basic economics ensure that leases are developed in a diligent manner. Leases are acquired at significant expense through a competitive bidding process and are subject to annual rental fees. If drilling or production is not commenced within the primary term, the lease is automatically relinquished to the government along with all of the bid bonus and rental fees paid. Beyond this due diligence obligation built in to the lease structure, the regulations and lease terms contain numerous additional requirements specifying leaseholder obligations. For example, exploration and development plans specify the number and timing of wells to be drilled.

There is no guarantee that commercial quantities oil and gas exist on any given lease, and under the existing program leaseholders bear all of the commercial risk for exploration and development of these properties. For leases returned to the government, leaseholders are out of pocket not only for bonuses and rentals but also for all the resources invested in planning, evaluation, and exploratory drilling. If a lease does terminate, it is not uncommon for the MMS to re-offer the expired acreage at the next Lease Sale and for someone else to lease it starting the whole process over again.

Chevron currently holds over 2000 Federal leases, around 70% of which are producing oil or natural gas, and are classified as “developed” in reports to the government. More than 85% of Chevron’s federal onshore leases are producing oil and gas. Most of Chevron’s undeveloped federal leases are located offshore in water depths between 4,000 and 10,000 feet where there is no existing infrastructure to produce hydrocarbons. These represent complex, high cost and long cycle time developments, and although government regulations require us to report them as “undeveloped,” this does not mean they are inactive. Our Tahiti project in the Gulf is an excellent example. It is still listed today as “undeveloped” even though billions of dollars have been spent, facilities have been constructed and the startup date is very close.

Chevron’s consistent practice is to conduct a thorough evaluation, followed by exploratory drilling, appraisal drilling, and finally installation of production facilities, where viable, of every lease we hold. Many leases do not have recoverable resources—we relinquish leases for those properties once we determine that commercial quantities of oil and gas are not available.

7. *Give states an incentive to support exploration and production by enhanced revenue sharing.*

While offshore oil and gas operations boost local economies, the host states also bear some of the burden of administering the program. For example, permitting and regulating shoreside support facilities often are the jurisdiction of state and local agencies. Provisions for enhanced revenue sharing already exist for states adjacent to existing Gulf of Mexico production, and should be extended to all coastal states.

It will take time and stable, sustained policies to bring new resources to the marketplace.

Chevron supports a stable and consistent policy and regulatory environment with respect to access and leasing. Energy investments are long-term, and expensive. The Tahiti project has spanned 5 congresses and its producing life could span 15 more. An unstable regulatory environment greatly increases the risk profile of these projects and discourages investment in domestic energy. We urge Congress and the Administration to maintain a path for the responsible development of new OCS resources and avoid changes to policy and arbitrary restrictions that will hinder that development.

New domestic oil and natural gas resources, as with all other energy choices, are not a quick fix to our energy challenges. Nor are they the only source we should pursue. We need all energy sources as well as efficiency measures to meet demand in the coming decades. Thoughtful development of oil and gas resources as a part of a broad energy policy will enhance energy security, create high quality jobs, increase government revenues and reduce U.S. capital outflows to foreign producers.

At Chevron, we want to work with you to realize that potential.

Thank you.

¹ NPC Study – 2008 update, http://www.npc.org/Hard_Truths-update_2008.pdf

² MMS , EIA-28 Financial Reporting System

³ U.S. GDP - 2006 (U.S. Bureau of Economic Analysis)

⁴ Strengthening Our Economy: The Untapped U.S. Oil and Gas Resources. ICF International December, 2008

⁵ EIA Annual Energy Outlook, Early Release (December 2008).

⁶ U.S. Minerals Management Service, 2006, “Report to Congress: Comprehensive Inventory of U.S. Oil and Natural Gas Resources – Energy Policy Act of 2005 Section 357,” February, 2006.