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Energy Awareness Tour  
Florida trip – June 15-17, 2005

It is a real pleasure to be back in Florida, and I certainly appreciate Ann Dupee arranging for me to meet with you all.

I'd like to visit with you today about energy – what we use, what we produce, where it comes from. And, in case you are wondering, there was no mistake in my introduction: I am with the Department of the Interior, not the Department of Energy. So, what does the Interior have to do with energy?

Interior is the steward of all public lands and as you will hear public lands play a crucial role in the supply of energy.

You may be wondering where the Department of Energy fits into the picture. Actually, the Energy Department deals primarily with policy, statistics and research, while the Interior Department manages the actual production of energy on federal lands.

Among DoI's eight bureaus that share the duties of managing those lands, the Minerals Management Service and the Bureau of Land Management oversee minerals production, offshore and onshore, respectively.

The Minerals Management Service has a dual function. MMS oversees production of oil and gas on 1.76 billion acres of federal offshore submerged lands. Since 1982, we have managed OCS production of 9.6 trillion barrels of oil and more than 109 tcf of natural gas for U.S. consumption.

We also collect the revenue from all mineral production on public lands both onshore and offshore. In 2004, MMS collected and remitted to the U.S. Treasury, the Indian Tribes and the States their shares of slightly over \$8 billion.

Energy is the lifeblood of our modern existence. Electricity can be manufactured using coal, natural gas, water power, nuclear power, wind power or solar power. We have many sources. But how practical are they? Coal is still the major source of electricity, hydro and nuclear powers contribute a moderate amount, wind and solar powers are negligible in their contributions at this time. However, over the last 20 years, for environmental reasons, clean burning natural gas has been chosen as the fuel of choice. The demand for natural gas has sky-rocketed. We use 22 TCF of gas a year. Domestically we produce 19 TCF.

And let's face it – we could not live without our cars and all forms of commercial transportation. This requires gasoline – that is to say oil.

We use 7.5 billion barrels of oil annually but we produce only a little under 2 billion.

Half of every barrel of oil we use goes to making transportation fuels, the rest is used to make the clothes we wear, the plastics we use daily, the fertilizer that helps produce the food we eat, the pharmaceuticals that help us stay healthy or fight illness.

The fossil fuels – coal, oil and natural gas – are vital to us every day in many ways we do not usually consider.

As mentioned earlier, MMS is the steward of our nation's natural resources and manager of assets derived from these resources. The MMS regulates energy development on the Outer Continental Shelf to provide Americans two-fold benefits: the energy that ensures our quality of life, and the revenue raised by lease bonus and rentals, and royalties paid by companies that develop the resources. These revenues in turn come back to the American public through State revenues, Land and Water Conservation Fund and Historic Preservation fund projects.

America has grown increasingly reliant on oil and natural gas to fuel its economy. Many national experts indicate the era of cheap oil is coming to an end; yet demand for fossil fuels, particularly oil and

natural gas, is increasing every year and our domestic production is not keeping pace with the increasing demand.

As a Nation, we are at a crossroads and the **choices** we make today on domestic energy production will affect us for decades to come.

It's hard to forget the oil embargo of 1973 when we had long lines at the gas pumps and President Carter asked all of us to turn down our thermostats and wear sweaters.

It was about that time that I became involved in the oil and gas industry.

I was appalled then to find out that this country, so rich in natural resources, was importing 37 percent of its oil needs. I thought that was really enormous considering how vulnerable we were to the whims of other countries.

Today we import a staggering 58 percent of the oil we need. As for natural gas, we went from being self sufficient to importing 15 percent -- a number that is expected to rise dramatically in the coming decades.

Projections done by the Department of Energy anticipate that the demand for both oil and gas will increase substantially in the next 10-

15 years. For natural gas, the anticipated demand will grow by close to 40 percent and for oil by 30 percent.

So the fundamental questions are:

“Where does the U.S. get its energy from and are those sources stable?”

“Is there anything the Government should do to alleviate this growing gap between supply and demand?”

The answers lie in four points from the President’s Energy Policy.

- 1) We must learn to conserve more and be more efficient in our use of energy.
- 2) We must develop alternative sources of energy to supplement and eventually replace the fossil fuels.
- 3) We must diversify our choice of energy traders so as not to be at the mercy of any one or two given countries for our imports.
- 4) We must increase our domestic production of oil and natural gas.

MMS plays a part in development of alternative sources of energy and production of oil and gas offshore. Another bureau of Interior, the Bureau of Land Management plays a similar part for onshore public lands.

Many of our industries have become more efficient in the use of energy, but still overall consumption is increasing because of the growth in population, the increased affluence of our society, and increased dependence on technology which requires more electricity.

At this time, alternative energy sources such as solar, wind, wave/tide, biomass, and hydrogen account for a very small percentage of energy consumed nationwide. However, these alternative sources are being developed actively as part of the President's Energy Policy.

The House-passed Energy Bill would designate the MMS as the lead agency in coordinating the permitting and leasing of all energy development on the OCS. In terms of energy production offshore, MMS right now is only authorized to manage oil and gas. If this legislation is enacted, we will be ready to manage alternative energy development with the same dedication to safety and technology that we have shown in oil and gas development. The MMS has more than two decades of experience working with coastal states, and the U.S. Commission on Ocean Policy in its report, "An Ocean Blueprint for the 21<sup>st</sup> Century," stated, "the scope and comprehensiveness of the OCS oil and gas program can be a model for the management of a wide variety of offshore activities."

We are at a critical juncture in this country with gas prices at an all-time high; our oil demand exceeding domestic supply by almost 60 percent. National security, as well as economic well-being and quality of life, rest on the need for a long-term energy plan that includes safe and efficient use of our Nation's resources.

The House of Representatives has passed legislation, and the Senate is scheduled to take up consideration of an energy bill shortly.

President Bush's policy encourages production of oil and gas while being very protective of the environment, encouraging conservation and increased research on alternative energy. Until legislation is enacted, the Department of the Interior continues to carry out the responsibilities mandated by Congress, including the Outer Continental Shelf Lands Act which directs the Secretary of the Interior to make resources available to meet the nation's energy needs.

The offshore lands managed by MMS have proven very rich in fossil fuels. Offshore produces 30 percent of all domestic oil production – more than we import from any given country and more than is produced from any single state. It also accounts for 21 percent of all domestically produced natural gas. Within the next 5 years, offshore production will likely account for more than 36 percent of oil and 23

percent of U.S. natural gas production, owing primarily to deep water discoveries.

The Bureau of Land Management oversees 261 million acres of federal lands, mostly in the West, that account for 11 percent of all domestic natural gas production, 5 percent of all domestic oil production, 40 percent of coal and 48 percent of geothermal energy. It also facilitates production of wind power on those public lands.

We do have more domestic resources. Our earth scientists estimate that we have 76 billion barrels of oil and 400 TCF of gas technically recoverable. However a good amount of those resources are located in areas that have been kept inaccessible to drilling.

Nearly one third of our total domestic production that comes from the OCS comes from only about 10 percent of the total offshore acreage presently managed by MMS.

The coastal states have a say – as they should – about whether they agree to have drilling and production in federal waters off their coasts. So to honor the requests of the coastal states, either through Congressional moratoria or Presidential withdrawals, the majority of offshore acreage is not accessible for exploration and production.



There is access to two-thirds of the Gulf of Mexico offshore Texas, Louisiana, Alabama, and Mississippi. Alaska also offers possibilities, but also presents some of the harshest conditions in the world for energy explorers. Nevertheless, the explorers and producers have met those challenges and continue to find new ways of operating in the Far North.

As Federal regulators, we are trying to create the right climate and incentives for industry to take the substantial financial risks necessary to increase production in Alaska and from frontier areas of the OCS. Likewise, we must find a way to get stranded gas from the North Slope to markets in Alaska and the Lower 48 states. A gas pipeline from Alaska to the Mid-West is sorely needed. Liquefied Natural Gas that can be imported from the Middle East and Africa is also needed. Ports must be built that will allow this gas to be received.

Before any exploration occurs in any area, MMS and BLM's scientists conduct comprehensive environmental reviews to make sure the ecosystems are protected. MMS has scores of geologists, oceanographers, geophysicists, engineers and biologists to ensure that proper science is at the basis of our decisions. Every place on earth has a beauty of its own. Some areas are so beautiful and sensitive that any level of risk is unacceptable. But if too many areas were inaccessible to energy production, our economy would be

severely constrained and we would lose many jobs. What would we have then? We'd have poverty with a view!

What's more, technology combined with stringent rules and regulations make it possible to control the risks associated with producing oil and gas. When Hurricane Ivan swept across the Gulf in 2004, 150 out of 4,000 oil platforms and 10,000 out of 33,000 miles of pipelines were in its direct path. Due to oversight and preparation, the subsurface safety valves on these wells operated with 100% efficiency, and only a small amount of oil in damaged pipelines escaped.

In fact, an independent National Academy of Science study showed that the largest amount of oil in the ocean comes from naturally occurring oil seeps. The second largest source is industrial and municipal waste. Drilling operations did not even factor in, in any significant way.

Florida, a large consumer of energy, is not a producer, at least not from public lands.

As mentioned earlier, MMS collects all revenues generated by production of minerals on public lands and redistributes 50% of the total to the state in which those minerals are located. Florida produces a minute amount of minerals from public lands. To give you a scale for comparison: my own state of WY last year received

from MMS \$630 million, while Florida received \$25,000, reflecting their respective production of minerals.

But Money is not the only commodity MMS can contribute to a state. Florida receives several benefits from what MMS does: for example

- 486 million cubic feet of gas per day is provided to Florida via the Gulf Pipeline. MMS monitors this Gulf production.
- Big Cypress National Preserve and Canaveral National Seashore were both funded through the Land and Water Conservation Fund; the money for that fund comes from royalties from offshore oil and gas leases.
- The Historic Preservation Fund, which is also funded from offshore royalties, supported such Florida historic sites as Ernest Hemingway House in Key West, Ponce De Leon Inlet Light Station, and Cape Canaveral Air Force Station.
- As part of the Rigs to Reefs program, three artificial reefs have been created from decommissioned oil and gas rig jackets and platforms off Northwest Florida. According to the Florida Department of Environmental Protection, recreational fishermen and divers that used these artificial reefs in 1997 and 1998 spent \$415 million in a five-county area, generating over \$83 million in wages and salaries which supported over 8000 full and part time jobs.
- MMS also plays an important part in ocean science. MMS scientists, working as part of the National Oceanographic

Partnership Program (NOPP), discovered deep sea corals growing on shipwrecks during an archaeological and biological analysis of World War II deepwater shipwrecks in the Gulf of Mexico.

- The Minerals Management Service's Sand and Gravel Program is busy with several Florida projects, including 10 miles of Florida's hurricane-damaged Atlantic shoreline in the Jacksonville area; several beaches in Brevard and Collier counties, and several coastal areas damaged in the 2004 hurricane season. For this coastal restoration program, MMS and the Florida Geological Survey work cooperatively to study sand shoals offshore and finds the appropriate area to supply the right kind and amount of sand without major disturbance to the marine environment.

As the Interior Department's offshore resource management agency, the MMS carries out a specific mandate – to balance the exploration and development of oil, gas and marine minerals resources of the OCS with environmental protection and safety. We will continue to be good neighbors of Florida, serving your State and citizens as we do all of America.