

Remarks Prepared for
Johnnie Burton
Acting Assistant Secretary, Land and Minerals Management
Department of the Interior
Energy Awareness Tour
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Introduction

It is a real pleasure to be here in Fayetteville again, and I certainly appreciate Michelle Devers arranging for me to meet with you.

When people think of the Department of the Interior, they tend to think of the National Parks. But there is a lot more to Interior. Here in Arkansas, I am sure you know about the Cache River National Wildlife Refuge, where the rare and endangered ivory billed woodpecker was recently re-discovered after being considered extinct for more than 60 years. That refuge is managed by the U.S. Fish and Wildlife Service, part of the Department of the Interior.

But today, I'd like to focus on the Department's important role in increasing our nation's energy supply. You might be wondering, what does the Department of Interior have to do with energy? The answer is, quite a bit.

About 30 percent of the energy produced in the country each year comes from public lands and resources managed by the Interior Department. This includes *offshore* oil and gas from the Outer Continental Shelf, as well as *onshore* energy resources under federal ownership – oil, gas, coal and even renewable energy such as wind, geothermal, solar and biomass.

Energy Demand and the President's Energy Policy

Thirty percent is a significant share, especially at a time when energy demand is increasing rapidly. Projections by the Department of Energy anticipate that demand for both oil and gas will increase substantially in the next 10-15 years – by about 40 percent. And domestic energy supplies are not keeping up. Based on current trends, the amount of oil we import will climb from 58 percent of our consumption today to 62 percent by 2030 – according to the Energy Information Administration. And there is a price squeeze; large demand and tight supply equals high prices. This cannot continue forever.

So the question is, what can the U.S. Government do to help narrow this growing gap between domestic supply and demand, and where will new energy come from?

The government can help by encouraging production from public lands.

President Bush's National Energy Policy and the Energy Policy Act of 2005 address this need. And The President, in his 2006 State of the Union address, underscored the importance of decreasing our dependence on fossil fuels and working toward developing renewable sources of energy such as nuclear, wind, hydrogen and biofuels. These alternative sources of energy will supplement and eventually replace fossil fuels.

But in the meantime, we must:

- 1) learn to conserve energy and be more efficient in our use of it,
- 2) diversify our energy supply, and,
- 3) increase domestic production of oil and natural gas and do so in an environmentally sensitive manner.

In many ways we have become more energy efficient since the energy shortages of the 1970s. In other words, we can accomplish more today with less energy. Appliances and heating and cooling systems are much more energy efficient, for example. Energy use in agriculture peaked in the 1970s, but farmers soon decreased energy use by an impressive 41 percent while at the same time increasing output by 40 percent. Even so, we still use more energy in this country today than ever before because our population is growing,

our economy is growing, and our use of new appliances and energy-dependent technology is growing.

Consider these facts: The size of the average house in this country has increased 55 percent in the last 30 years while the size of the American family has decreased 13 percent. Those popular large plasma television screens use two to three times as much power as traditional TVs; computers that stay on 24-7 require energy that our old typewriters did not. (Does anyone remember using a typewriter?) In fact, consumer electronics make up 13 percent of all household energy use, compared with 5 percent just 25 years ago.

Where Does Our Energy Come From?

While we use vast amounts of energy, most Americans don't know where their power comes from. A recent survey found that 85% of Americans cannot answer simple energy questions. They do not know that more than 50% of our electricity comes from coal and an increasing share is coming from natural gas.

Many Americans are in energy denial. They think that simply because they've always had abundant energy – except in the 1970s when we were stuck in gas lines – they always will. As a result, we are failing to develop some of our most promising domestic oil and

gas reserves, including ANWR and more than 85 percent of Outer Continental Shelf off our coasts.

MMS and BLM energy development role

The Interior Department plays a major role in managing federal areas that are available for energy development. The Minerals Management Service oversees offshore production while the Bureau of Land Management (or BLM as we call it) manages onshore activities. I oversee the activities of both agencies as the acting Assistant Secretary of Land and Minerals Management at the Interior Department.

Keep in mind these are *federal* resources; My remarks do not address production from private or State-owned energy resources, which also is significant.

Through the MMS, Interior manages 1.76 billion acres of federal offshore submerged lands on the OCS, which have produced 9.8 billion barrels of oil and more than 109 trillion cubic feet (tcf) of natural gas for U.S. consumption since MMS was created in 1982 . MMS just released a new assessment of OCS resources – we estimate that there are 86 billion barrels of oil and 420 tcf of natural gas remaining to be discovered offshore.

Onshore, Five Rocky Mountain basins hold large resources of natural gas -- second only to the OCS. These onshore basins contain an estimated 139 tcf of gas - enough to heat 55 million homes for almost 30 years. More than half of these lands are under BLM management.

About 14 tcf of natural gas have been produced from Federal onshore leases from 2001 through 2005, with Wyoming and New Mexico producing the most.

Coal bed methane from the Rocky Mountain States makes up 7.5% of all natural gas produced in the U.S. Recoverable reserves in Wyoming's Powder River Basin alone are about 25tcf – that's about as much natural gas as we use in an entire year.

You may have read in the news about other large natural gas field developments we manage in Wyoming, such as the Pinedale Anticline and Jonah fields. The Jonah field alone contains an estimated 12 tcf of natural gas.

Environmental Considerations

But regardless of how energy rich these areas may be, onshore or offshore, we must manage development in an environmentally sensitive way. All of these activities comply with numerous environmental laws such as the National Environmental Policy Act, Clean Air Act, Clean Water Act and Endangered Species Act. These activities also go through several stages of careful planning and public participation.

And to put it into perspective, a relatively small proportion of federal lands is leased for energy development. BLM manages 700 million acres of subsurface mineral estate. About 36.5 million of these acres are leased and only about a third of leased acres actually produces any oil or gas. In fact, the percentage of lands directly disturbed by this development is estimated to be less than a tenth of a percent (or 390,000 acres). Offshore, more than 85% of the OCS is off-limits to oil and gas exploration and production.

Our emphasis on the environmental elements of energy production was put to the test during the 2005 hurricane season, and we learned that development on the Outer Continental Shelf is being managed safely. Of the 4,000 platforms in the Gulf, 113 were destroyed and 52 were damaged, but there were no fatalities among offshore workers, there were no significant spills from offshore wells.

All of the under water wellhead safety valves held, preventing uncontrolled releases of hydrocarbons into the Gulf of Mexico. Today, more than 77 percent of the Gulf's oil production and 86 percent of its natural gas production are back on line and the numbers continue to improve.

Production of our energy resources benefits Americans several ways. The increased energy supply contributes to our national security, our economy and to our quality of life. At the same time, this production generates literally billions of dollars in royalties and other payments for the American people.

Arkansas Energy and Economy

While the most federal oil and gas programs are located offshore or in the West, there are significant federal oil and gas resources right here in Arkansas. You are experiencing, on a smaller scale, an increase in development interest similar to what we are seeing in the West. This is being driven largely by record high energy prices.

Although the BLM only manages a few hundred acres of surface land in Arkansas, the agency manages about 2.4 million acres of sub-

surface Federal minerals in the State, and industry is definitely interested.

Last year alone, the number of federal oil and gas leases in Arkansas grew more than 20 percent (from 900 to 1,127). The number of drilling permits we approved was up 400 percent (from only 5 in 2004 to 23 in 2005). We created a full time position in Arkansas to handle this interest.

When I was here just a few weeks ago, I met with representatives of the energy industry to learn about the potential here in Arkansas. There is much interest in exploring the natural gas possibilities in the Fayetteville Shale play. BLM expects to receive dozens of applications for drilling in this area in the near future. This translates into potential investments of hundreds of millions of dollars by energy companies. Needless to say, this could have significant implications for Arkansas's business climate.

Energy development nourishes local economies in many ways. Some of you may not realize that MMS collects all revenues generated by production of minerals on public lands and redistributes 50 percent to the state in which those minerals are located. Those revenue dollars can be huge. In fiscal year 2005, my own state of Wyoming received \$878.5 million from MMS due to the large amount of production taking place there. Although much smaller, Arkansas' revenues were still significant at just over \$7 million.

In addition, last year, including off-shore revenues, MMS collected a total of about \$10 billion. Since its beginnings in 1982, MMS has collected about \$156 billion, and that's "Billion" with a "B."

These revenues come back to the American public through a combination of U.S. Treasury funds, State revenues, the Land and Water Conservation Fund and Historic Preservation Fund projects.

So some of these off-shore funds also come to Arkansas, albeit a bit less directly, from the Historic Preservation Fund and the Land and Water Conservation Fund, both of which are funded with receipts from offshore oil and gas leases.

In fiscal year 2004, a little more than half a million dollars (\$569,038 exact figure) went to Arkansas from the Historic Preservation Fund. This helps fund the professional expertise of preservation planners needed at special historic sites in the state. In fiscal year 2006, about \$350,000 flowed to Arkansas from the Land and Water Conservation Fund. This money is used to acquire key habitat, wetlands and recreation areas.

Importance of Energy as Feedstock

The link between energy and the Arkansas state economy is strong in other ways too. A large part of your economy depends on agriculture, transportation, tourism and many other energy dependent activities. Some demands for energy are not so obvious.

I spoke earlier about energy demand in our homes and offices. But now I'd now like to address our significant dependence on energy as a feedstock, or raw material, if you will. This is an area that many people are not familiar with, but it is having a profound affect on our economy. I know this is important to Arkansas business and economic development, as it speaks directly to agricultural, manufacturing and chemical industries.

Because many power plants and modern transportation systems run on natural gas, and natural gas is used in manufacturing so many things, from plastics to fertilizer, the demand for this clean-burning fuel has sky-rocketed. This has driven up prices. In America, the cost of natural gas has gone from the lowest in the industrialized world to the highest. This is having a serious impact on American jobs.

Economic survival can become very difficult if your business plan is built on \$2-3 an MCF and natural gas is selling for \$6 – 7 an MCF. A year ago I participated in a business roundtable in Tennessee where I heard major American corporations describe their reluctance to move their businesses, their infrastructure, their capitalization and their jobs overseas – yet they felt they had no alternatives as long as natural gas prices remain high.

More than 3 million manufacturing jobs have been lost in just the past 5 years. (source: Industrial Energy Consumers of America) It used to be, companies moved overseas in search of cheap labor. Now, increasingly, the search is for cheaper energy.

Five-Year Plan

We think MMS and BLM can make a significant difference in increasing domestic energy supplies, and in that way help keep jobs here at home. But development of federal energy resources is a long range proposition.

The MMS is currently involved in development of a Five Year Plan that will specify the size, timing and location of areas to be considered for Federal offshore natural gas and oil leasing between 2007-2012. This plan proposes ways to increase exploration, development and production of the tremendous oil and gas resources located off-shore.

We asked for public comment in August and heard from more than 11,000 people as well as government, industry and environmental representatives. About 80 percent of the comments were in favor of some expansion of areas available for leasing consideration.

We incorporated those comments into our development of the Five Year Plan and have distributed it again for public comment, which closes April 11. You can find it on our website at www.mms.gov.

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, Congressional moratoria or Presidential withdrawals have made the majority of offshore acreage not accessible for exploration and production.

But change could be on the horizon. The Commonwealth of Virginia introduced a measure in its General Assembly last year that addressed the possibility of offshore drilling. The measure succeeded, but was vetoed by the Governor on technical grounds. The General Assembly recently passed a second bill that advocates the opening of Virginia's coastline to offshore drilling. That bill is currently before the Governor.

This demonstrates that there is interest in offshore development when it can be done in an environmentally safe manner.

MMS is holding what we call “scoping meetings” – in Alaska, the Gulf Coast States of Texas, Louisiana, Alabama, and Florida and the Commonwealth of Virginia to discuss the proposed offshore leasing program. It is still early in the process, and no one is certain what the outcome will be, but we anticipate a healthy and vigorous discussion.

We are hoping that affected parties look at the changes that have taken place in the decades since the 1969 Santa Barbara oil spill. That’s how we are sometimes judged, but we are operating in a completely different world today.

New technology combined with stringent rules and regulations now make it possible to control the risks associated with producing oil and gas. Two major hurricanes just blew through the heart of the Gulf oil patch without a single significant spill from a platform in federal waters. Some of the oil pollution you may have heard about was due to “topside” spills offshore, but most of the incidents that occurred involved onshore storage facilities.

In fact, natural cracks in the seabed release 150 times the oil in U.S. Oceans than is spilled from offshore oil rigs. The second largest source is industrial and municipal waste. Drilling operations were not even considered a significant factor in a recent study by the National Academy of Science.

Conclusion

Every place on earth has a beauty of its own. Some areas are so beautiful and sensitive that any level of risk is unacceptable.

That's why we have wilderness areas, national parks, national wildlife refuges and other specially designated areas. But if too many areas are inaccessible to energy production, our economy will be severely constrained and we will continue to lose jobs to foreign countries.

The key is to find the right balance. It is what President Bush meant when he said, "The truth is, energy production and environmental protection are not competing priorities. They are dual aspects of a single purpose...to live well and wisely upon the Earth."

And so at Interior, we balance the exploration for and development of energy with environmental protection and safety. We manage the spectacular National Parks and wildlife refuges, and we will continue to serve American citizens and businesses by providing much needed energy resources too.

Thank you.