Louisiana Department of Natural Resources

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To: James D. Watkins
Admiral, U.S. Navy (Retired)
Chairman, U.S. Commission on Ocean Policy

From: Mike French, P.E.
Director, Technology Assessment Division
Louisiana Department of Natural Resources

Subject: Reply to your April 10, 2002 request for additional information as follow-up to my testimony in Offshore Energy Panel 2 in New Orleans on March 8, 2002

In your letter, you requested "estimates of the total revenues generated from OCS resources, and the amount of royalties or other payments to the federal government." Attached is a Lotus 123 spreadsheet that has two tables that provide this information.

The first table shows direct revenue to the federal government from Louisiana OCS Mineral Leases by year. The cumulative total of direct revenue the federal government has collected from this area through 2001 is $ 91.6 billion. This figure does not include indirect revenue such as corporate income taxes the federal government receives resulting from industry production of resources in the Louisiana OCS.

The second table shows the disbursement to Louisiana from the OCS federal production by year. The only production revenue the state receives is from the three-mile wide transition zone that extends three miles seaward from the state territory line. This transition zone is called the "8g" area from section 8(g) of the Outer Continental Shelf Lands Act Amendments of 1978 and 1985. The 8(g) agreement settled claims the state had of state reservoirs being drained by producers on the federal side of the state line from the time of the beginning of production in the Gulf. The cumulative total paid to Louisiana through 2001 is $ 928 million or approximately 1 (one) percent of the direct revenue the federal government has collected from this area. Compare this to the 50 percent share states receive from mineral production from federal lands onshore.

Also in your letter you asked, "What are the areas of serious conflict, if any, between the State of Louisiana and the Federal Government with respect to the offshore oil and gas development programs of those two levels of government - and what would you like to see this Commission include in its recommendations to the President and Congress on this issue?"

The primary complaint the State of Louisiana has is the lack of revenue sharing and lack of financial assistance from the federal government for coastal restoration and environmental remediation.

As I mentioned in testimony to your panel in New Orleans, much of the coastal and offshore activity off Louisiana's coast was done before the evolution of modern technology, practices, sensitivities, and enlightened attention to environmental issues. Hence, Louisiana's long and early role in offshore mineral development has caused Louisiana's coastal ecology to suffer much in the way of damage such as erosion, salt water intrusion, diversion of land building sediment, and loss of nutrients. Many things caused these effects, including past bad practices in the widespread dredging for navigation canals and laying of pipelines throughout Louisiana's fragile marshes and wetlands. This has significantly increased the sensitivity of the coastal areas to further damage from natural storm damage and the ongoing draconian loss of Louisiana's coastline at a rate of 35 to 40 square miles per year.

Additionally, Louisiana has incurred substantial public safety, public works, public health and other expenses in building and sustaining the infrastructure that makes possible the offshore development activity, including the significant onshore processing facilities for offshore production. State and local governments have borne the costs of significant investments in roads, port facilities, police and fire protection, hospitals, water supply, sewage treatment, and numerous other services and facilities necessitated by offshore development.

The State of Louisiana does not share in the massive wealth from offshore development by receiving any of the federal mineral revenue produced off its coasts other than its 27% share from the narrow 3-mile wide Section 8(g) transition zone. It is only fair and appropriate that future U.S. Ocean Policy address the restoration and amelioration of the environmental damage, address sharing the costs of the infrastructure support services and facilities, and address the fair sharing of revenue with states adjacent to OCS production . This would also send a strong signal to states resisting any development off their coasts that the federal government does not expect the adjacent states to bear all of the environmental, economic, and social costs and does not expect impacted coastal states to not share in the wealth of OCS production. States that support U.S. mineral development off their coasts, which is a critical and essential component of U.S. energy supply, should share in the bounty from offshore to offset the costs previously mentioned.

We would like to see your Commission take a strong stand in support of Louisiana's needs for substantially increased revenue sharing and funding of coastal restoration in your recommendations to the President and Congress.

Thank you for the opportunity to present our information to your Commission.

Sincerely,

Mike French