Admiral James D. Watkins, Ret.
Chairman
U.S. Commission on Ocean Policy
1120 20th Street, NW
Suite 200 North
Washington, DC 20036

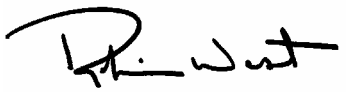
May 30, 2002

Dear Admiral Watkins:

Thank you for inviting me to expand upon several of the issues I raised before the Commission in my testimony on March 8, 2002 in New Orleans. Attached you will find detailed responses to your questions, which are reflective of widespread industry consensus on these issues.

Please do not hesitate to contact me with any further requests or inquiries. I greatly appreciated the opportunity to appear before the Commission and I thank you for allowing me to expand upon my testimony.

Sincerely,



J. Robinson West

QUESTION 1:

As you know, although there is solid support for the Federal offshore oil and gas program in virtually all of the states bordering on the Gulf of Mexico. This is not true for most coastal states in other regions of the Nation. Based on your long involvement in this issue — inside and outside the Government — why do you think that the program has so much difficulty along the Atlantic and Pacific coasts — and in Florida?

There are many reasons for traditional support of offshore oil and natural gas development in some regions of the country, and the newer but equally fervent tradition of antagonism in others. First and foremost, the central Gulf of Mexico region has enjoyed a long history of offshore energy-related economic development. Texas and Louisiana were on top of and adjacent to some of the world's richest ground in terms of hydrocarbon deposits. The mineral-rich Central and Western Gulf regions were in essence the "low hanging fruit" in terms of oil development. The oil and natural gas off the coasts of Texas, Louisiana, Mississippi and Alabama was the first to be produced, and the economic benefits of that development continue to accrue to those regions to the present day — accounting for more than 31,000 jobs that are directly related to the industry, and countless more that are indirectly linked to offshore activity.

Less well known to many citizens is the fact that economic benefits from offshore energy development seaward of those states accrue to the rest of the country as well. Americans benefit from offshore operations in a variety of ways. Leading-edge technologies pioneered by the offshore industry have generated applications that benefit a myriad of other industries and improve our standard of living. In addition to supplying the nation with the valuable hydrocarbons that fuel our vehicles, heat our homes, and generate our electricity, the offshore industry has paid more than $133 billion into the federal treasury since 1954, with the Gulf of Mexico generating more than 90 percent of those revenues. In the past, these revenues have been allotted to federal programs such as:

- Health care, education, housing and foreign aid ($ 106 billion)
- Public parks, recreation and wildlife areas ($22 billion)
- Historic preservation projects throughout the nation ($3 billion)
- An additional $3 billion goes to producing states through the 8(g) program, which supports programs from education to wildlife conservation.

However, the economic incentives generated from offshore royalty revenues are routed to states regardless of their role in energy cultivation. There is little linkage between the states and local communities that support offshore development and the revenues and other economic incentives that their work yields. While state, federal and local entities reap significant benefits from OCS exploration and production we believe that there should be a more equitable disbursement of OCS revenues directly to the local communities that support the offshore industry. The coastal communities that many of our offshore workers call home often receive significantly less than their fair share of OCS revenues — revenues that could be used for parks, schools and hospitals as well as

to repair roadways, ports and other necessary infrastructure. The states and communities that shoulder all of the weight of offshore energy production should receive more of the benefits of offshore energy production.
We recommend that the Commission on Ocean Policy examine ways in which some of the revenues that currently flow into the federal treasury might be used to enhance the local counties, parishes and municipalities that support America's energy development. In doing so, we feel that the link between economic development and offshore energy development would be made more clear and the hostility from communities that do not recognize these benefits may be lessened.

However, any explanation of the opposition to offshore energy production would be incomplete if it did not speak to another reason that the industry's public image has been tarnished. In 1969, a tragic blowout on a production platform off the coast of Santa Barbara spilled 70,000 barrels of oil into Santa Barbara Channel and caused serious environmental damage. The highly publicized incident generated considerable public outrage and lent momentum to the nascent environmental movement. The incident proved to be the catalyst for several pieces of environmental legislation and a movement called the "Seaweed Rebellion," whose goal was to significantly scale back the offshore leasing program.

Despite massive advances in industry technology, much-tightened regulations, and the fact that industry has incorporated an environmental ethic into its day-to-day operations, for many, the tragedy in Santa Barbara embodies offshore energy development. This is bad for the nation for the following reasons:

- Domestically produced oil and natural gas is found and produced in accordance with the world's most stringent environmental standards.
- Oil and natural gas are essential components of our nation's energy supply, our economy and our quality of life.
- And, most importantly, the U.S. offshore industry's record of environmental performance is unparalleled anywhere else in the world with government statistics showing that oil is found, produced and transported safely 99.9996 percent of the time.

As an industry, we have not told this story well. It appears that much of the public is unaware of how energy in all its forms is found and produced. Therefore, it is important to both the industry and the country that this message is heard. Companies and trade groups continue to advance this effort, but industry cannot do it alone. State and federal governments also have a responsibility to ensure that Americans are sufficiently educated on energy issues.

I recommend that the U.S. Commission on Ocean Policy examine ways in which some groups have attempted to deal with this serious problem. One program that is exemplary in its effectiveness is the National Energy Education Development (NEED) Project. NEED's mission is to create networks of students, teachers, business, government and community leaders to design and deliver comprehensive, non-biased energy education curriculum and programs. As part of that mission, NEED covers the nation's leading

energy sources — oil and natural gas coal, uranium, solar, wind, hydro, geothermal, and biomass as well as the science of energy — what it is, where it comes from, and why we need it. NEED covers the uses of energy as well; from transportation and commerce to electricity generation. There is also a component for energy conservation and efficiency. NEED is a non-profit organization with limited scope and funding. However, its mission is important and its method is replicable. Some similar component of energy education should be provided for our students so that future generations will be able to make informed and intelligent decisions on energy and the environment.

QUESTION 2

From your point of view, what does the clear and predictable regulatory structure you mentioned in your oral testimony really mean? Please provide your specific framework for such a structure.

A clear and predictable regulatory structure is one that adheres to a transparent and consistent process to arrive at its determinations within a reasonable timeframe. We in industry understand that development permits may not always be granted and regulatory rulings may not support industry's positions. However, the process must be consistent, predictable, and transparent. By and large, a clear and predictable framework is already in existence. However, reform of the Coastal Zone Management consistency review process is needed to ensure prompt and efficient development of OCS energy resources—a national priority.

Industry has submitted a considerable amount of information to the Commission with regard to the Coastal Zone Management Act (CZMA); therefore, it may prove to be a useful illustration of what we mean by a "clear and predictable" regulatory process — or lack thereof. What has been so frustrating for companies that are involved in CZMA consistency disputes is the *lack of consistency* in which consistency requirements are applied.

Gulf states supportive of OCS energy production and consuming states opposed to OCS energy development, face many similar federal consistency issues on non-energy projects such as ports, shipping, cruise ships, the military and transportation facilities. There are many activities common to our industry and other major offshore linked industries which result in differing application of consistency. Those common activities include transport of fuel in open water, permanent structures in open water, permanent tank storage over or adjacent to water, shoreside support of facilities, waste management, discharge/emissions of air, water pollutants, bottom disturbance, supply boat operation, ecosystem impacts and endangered species considerations.

By way of example, it may be useful for the Commission to contrast the ways in which CZMA consistency provisions are applied to drilling projects in the Eastern Gulf of Mexico on the one hand, and the way the same provisions are applied to pipeline permitting in the same region. Here's a basic summary of the process and how the provisions are inconsistently applied:

A pipeline project, generally thought to be desirable by a state government, is planned for a given area. It is understood that the anchors for the pipeline will disturb the soft bottom habitat in certain areas traversed by the pipeline. Although the Federal Energy Regulatory Commission is the primary agency tasked with pipeline permits approvals, FERC must still submit the plans to the affected states for CZMA consistency review. The state agency reviews the plan, acknowledges that a pipeline may have disturbed the soft bottom habitat, but rules the project consistent with the state's Coastal Management Plan if certain measures are taken to mitigate this impact. The project goes through.

At the same time, in the same region, drilling and production permits are filed. As with the pipeline, it is understood that the production platforms anchors may disturb the soft bottom habitat. Plans are submitted to the affected states for CZMA consistency review. In this case however, the state rules that the plans are inconsistent with its Coastal Management Program, citing the project's impacts on soft bottom habitat, and therefore on the Essential Fish Habitat. The state rules that the project's impacts cannot be mitigated and the project is halted.

The impacts in question are identical. The outcome of a consistency ruling should also be identical. However, the CZMA consistency provisions are applied *inconsistently*. This is an example of a rulemaking/regulatory process that is not predictable or transparent.

QUESTION 3

What is the industry doing to get its story of an environmental ethic, environmental programs and so forth to the public? What is industry doing to repair/mitigate its historical impacts on the environment? How much does the industry spend on public education?

The offshore oil and natural gas industry's record of environmental performance is excellent — and improving year by year. Unfortunately, as your questions reflect, it is a story that has not been communicated effectively enough. The most important way that industry tells this story is, first and foremost, by steadily improving its record of safety and environmental performance. Safe and clean operation is industry's number one priority.

From 1985 to 2000, U.S. Coast Guard data and MMS data show that 6.3 billion barrels of oil were produced in federal offshore waters with less than 0.001 percent spilled – a 99.999 percent record for clean operations. In actuality however, industry's record is even more impressive, but is obscured by MMS's rounding of the data. Since 1985, OCS operators have produced over 6.3 billion barrels of oil but have spilled less than 67,500 barrels. This yields a spill rate of 0.00001. In 1999, out of more than 535 million barrels of oil produced from the OCS, 707 barrels of oil were spilled from platforms. In 2000, out of more than 575 million barrels produced from the OCS, 323 barrels of oil were released.

The industry is also working throughout the country to restore sites as closely as possible to their original state. By applying innovative site restoration practices and technologies, including soil bioremediation and wetlands restoration, industry is leading the way in environmental protection

Each year, responsible operators cooperate with state and federal regulators to plug abandoned wells and restore abandoned E&P sites along the Gulf Coast. Operators and our trade associations work continuously with MMS and state regulators to increase and maintain responsible bonding, operating, environmental and safety regulations. MMS and other agencies (e.g., Coast Guard) have incorporated several API standards into their regulations by reference. This practice allows industry to preserve important safety and environmental safeguards while maintaining flexibility over offshore operations.

Industry is not complacent, however, and we continue to work cooperatively with government agencies such as the MMS and Coast Guard to protect the environment and the health and safety of our neighbors and employees. Industry and government have worked cooperatively to develop over 500 operating standards that guide the industry in maintaining the strength, integrity and safety of offshore platforms and other structures. Among the safety guidelines are those written into API's Safety and Environmental Management Program (SEMP), which has proven to be an extremely effective management system in protecting the safety of crews who work offshore and the marine environment.

Performing our job in the safest and most environmentally sensitive manner possible is only one way that we are "telling industry's story." We know, however, that this is not enough. Although it is impossible to quantify how much the industry spends on public education both directly and indirectly, the industry is making extensive efforts in this regard.

Both the NOIA website (www.noia.org) and the API website (http://api-ec.api.org) post basic educational materials aimed at students and children, media and legislators, and the general public. These sites link to articles, brochures and books published by government, academia and the popular press that go into varying amounts of detail about energy development and its importance. A recent publication produced by the Department of Energy entitled, *Environmental benefits of Advanced Oil and Gas Exploration and Production Technology* offers a detailed, yet easily understandable portrait of the technological innovations that have revolutionized the industry's operations and vastly enhanced safety and environmental performance.

Among the most effective and cost efficient outreach programs supported by industry and government, the National Energy Education Development (NEED) Project operates independently as a non-profit. Created in 1980, NEED's mission is to create networks of students, teachers, business, government and community leaders to design and deliver comprehensive, non-biased energy education curriculum and programs. NEED works to

make energy education a component of elementary and high school curriculum across the country.

As a nonprofit organization, NEED receives funding from a variety of energy industry sectors (see www.need.org for a complete listing). NEED is a recipient of major funding from the offshore oil and gas industry including production and service companies, as well as from the Department of Energy and the Department of the Interior.

QUESTION 4

As the Commission looks to the long-term future, we are concerned with the nation's ability to attract people to ocean science and leadership positions. Additionally, as you may have heard in the hearing testimony and as we have heard throughout our regional visits, there is a great need to develop enhanced public awareness/recognition of every facet of ocean activities.

Industry is also concerned about future talent and leadership in both the ocean and energy sciences. The offshore oil and natural gas industry has undergone a sea change in the type of talent that we need to attract. Thanks to revolutionary technological advancements, the industry's workforce must now be more technically proficient than ever before. Contrary to the prevailing conception of the offshore oil workers as brawny roughnecks, companies now rely on teams of engineers, geoscientists, marine biologists and other highly skilled and highly trained technicians to run the mechanical marvels that drill and produce oil and natural gas in thousands of feet of water.

While these innovations have increased efficiency, safety and environmental performance, they have also uncovered a serious need for a new generation of young leaders in science and technology. Enrollment in petroleum engineering schools in the United States has fallen from a peak in 1983, when the two largest petroleum engineering schools in the country — Texas A&M University and the University of Texas — had a combined enrollment of 2,738 undergraduates in their petroleum engineering departments. Currently that number stands at 411.

Part of this decline is rooted in the dated perceptions of the oil industry. What many in this country still understand as a smokestack industry is now a knowledge-based commercial process that increasingly relies on the rapid development and application of technology to maintain competitiveness. At a recent World Energy Conference, the noted economist Lester Thurow stated, "The oil industry still produces oil, but it has been infused by so many new technologies that it should be thought of as one of the new manmade brainpower industries like biotechnology." This change has shifted the industry's focus to high-tech expertise.

Industry's recruiting efforts at campuses are shifting into high gear and partnerships with academic institutions are beginning to turn this trend around. Companies are sponsoring scholarships at prestigious universities and working with masters and doctoral programs to ensure that promising students are aware of the challenges and opportunities that await

them in offshore energy production. Some of the National Sea Grant programs are actively engaged in this effort. Each year the Texas A&M Sea Grant program sponsors an Industry Outlook Conference in which industry leaders and executives discuss economic and technological forecasts for the offshore industry before an audience of students and professionals.