

**Testimony of Robin West
Chairman, Petroleum Finance Company,
before the
U.S. Commission on Ocean Policy
March 8, 2002**

Good morning. My name is Robin West and I am Chairman of the Petroleum Finance Company, a strategic advisory firm in global energy, with offices Washington D.C., Houston, Paris, and London. Thank you for the opportunity to talk today about national ocean policy and the exploration and production of energy from the Outer Continental Shelf.

Today, I am speaking for seven different organizations that represent all facets of the offshore energy industry: the American Petroleum Institute, the Domestic Petroleum Council, the Independent Petroleum Association of America, the International Association of Drilling Contractors, the National Ocean Industries Association, the Petroleum Equipment Suppliers Association and the U.S. Oil and Gas Association.

I would like to talk today about the important role of US Outer Continental Shelf oil and gas production, in meeting the nation's energy needs for economic growth and national security- and how we can make those contributions even greater

Growth of oil and natural gas production from the OCS over the last few decades has been spectacular. We have gone from one percent of total U.S. production in the 1950s to 25 percent in 2002. Ninety percent of current OCS production comes from the Central and Western Gulf of Mexico. The Gulf of Mexico is a world-class oil and natural gas province. According to MMS, in 2001, the Gulf of Mexico is now the largest single source of oil for American consumers and businesses.

Within the Gulf of Mexico, there has also been a dramatic shift in production from shallow waters to deepwater areas. Amazing technology developments by industry, and economic incentives enacted by Congress, have expanded safe and environmentally responsible exploration and production into the ultra deep ocean waters. We understand you saw this for yourselves on Wednesday on the "Ocean Confidences" drilling rig, far out in the blue-water Gulf at the Thunder Horse project.

Since the mid 1990s, companies have spent hundreds of millions of dollars drilling in the Gulf. Between 1996 and 1998, the number of exploratory wells actually doubled despite a drop in crude oil prices and the limited number of rigs that can operate in those ultra deep waters. Over the past decade, oil production rose 65 percent; from 1998 to 1999, deepwater natural gas production rose by 51 percent.

Due to this increased investment, the estimate of recoverable offshore oil reserves has risen to 50 billion barrels- a 135 percent increase from just five years ago. The OCS is estimated to contain more than 65 percent of the nation's remaining undiscovered technically recoverable oil and natural gas resources.

Industry's ability to explore and produce in the Central and Western Gulf of Mexico, closely regulated by government, can serve as a general model for other areas of the OCS. These economic and energy security benefits have been achieved with minimal impact, and an ongoing commitment to environmental protection and worker safety. Offshore operators are doing their job and meeting stringent government requirements every day.

These investments in oil and natural gas production have meant substantial revenues for all levels of government. For example, in 2000, the OCS leasing program sent \$5 billion to the federal treasury in rentals, royalties, and bonus bids.

In the same year, production close to shore provided \$108 million to adjacent states under a federal revenue sharing program. Since 1986, \$3 billion has been distributed to protect wildlife habitats along the coast and support public education.

Under the Land and Water Conservation Fund, federal and state governments have spent \$16 billion generated from offshore leasing and development to acquire new parklands. Another \$2.5 billion generated by offshore oil revenues has gone to the National Historic Preservation Fund to help states preserve their past.

This leads to a broader point: The relationship between Gulf Coast communities and the oil and gas industry is mutually beneficial and extends beyond revenues and good jobs. These towns and cities have, in turn, provided the talent, support and labor to meet our country's energy needs.

The states that directly support offshore energy production should get their fair share of OCS revenues, to repair the highways, ports and other infrastructure that makes it possible to deliver energy to consumers. We support efforts begun with the Conservation and Reinvestment Act of 1999, and suggest that the Commission look further at more equitable OCS revenue support for these coastal communities.

While the oil and gas flowing from the Central and Western Gulf is a success story, the rapid increase in production over the last decade will taper off. The Energy Department forecasts that, within the next five to seven years, total OCS production will peak.

Where will new energy resources the country needs come from? Will it be from domestic supplies or from imports? If domestic supplies are important to our energy security, the government will need to consider new areas of the OCS for exploration. Unfortunately, for the past decade leasing and drilling moratoria have been continued by Congress and the President on the Atlantic and Pacific Coasts, most of the Eastern Gulf of Mexico and parts of the coast of Alaska.

New OCS energy supplies take a great commitment of time and money. Without government leadership, it will be impossible to duplicate its success in the Central and Western Gulf. The government estimates that those areas currently off limits to leasing contain 16 billion barrels of oil and 70 trillion cubic feet of natural gas.

70 TCF of natural gas could fuel the current residential needs of the entire U.S. for 14 years; 16 billion barrels of oil would sustain domestic production equal to current imports from Saudi Arabia for 27 years. Even though the industry has demonstrated that it knows how to make “responsible use” of ocean energy resources, less than 20 percent of the federal Outer Continental shelf is open to exploration or development.

In 1990, former President Bush issued an Executive Order banning exploration in many offshore areas; he said the government must study the potential for energy reserves and the environmental and scientific concerns about drilling. But, we know that answers to those questions come more quickly when an area is under active consideration for leasing. Precluding these areas from preleasing activities inhibits, rather than promotes, gathering the very information needed to make informed decisions about whether or not an areas can be safely opened to energy development.

It is ironic that in the past decade we have seen great advances in offshore technology. The industry has demonstrated its ability to produce energy and protect the environment. There is a clear need for greater domestic energy supplies, and yet there are increased barriers to US offshore energy production.

We ask for the Commission’s leadership in making real progress toward responsible development of America’s offshore energy, as important to our future as it has been to our past.

Thank you very much for the chance to offer our views.

##