STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON
S. 2253, A BILL TO REQUIRE THE SECRETARY OF THE INTERIOR TO OFFER THE 181 AREA OF THE GULF OF MEXICO FOR OIL AND GAS LEASING

February 16, 2006

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear here today to discuss the area of the Federal Outer Continental Shelf (OCS) in the Gulf of Mexico commonly referred to as the "Sale 181 area". We appreciate the Committee's efforts to address our nation's domestic energy needs. S. 2253, calling for the expansion of leasing within the Gulf of Mexico of non moratoria areas closely resembles the draft 5-year proposed program released by the Department on February 8, 2006.

The OCS Lands Act directs the Secretary of the Interior to make resources available to meet the nation's energy needs. The accompanying congressional declaration of policy states, "The OCS is a vital national resource reserve held by the Federal Government for the public, which should be made available for expeditious and orderly development." The Administration has directed the Minerals Management Service (MMS) to meet this charge through specific policy initiatives provided in the President's National Energy Policy. This direction is all the more critical in the face of higher oil and natural gas prices and their impacts to our economy.

As the Nation's offshore energy and mineral resource management agency, the MMS has a focused and well established ocean mandate – to balance the benefits derived from exploration and development of oil, gas, marine minerals and renewable energy resources with environmental protection and safety.

The environmental record of the OCS program is outstanding. There has not been a significant platform spill in the last 35 years. The Sale 181 area is a gas prone area and natural gas production offshore represents one of the most environmentally sound energy developments this country could propose.

The oil and gas produced from the OCS plays a major role in supplying our daily energy needs, accounting for 30% of domestic oil production and 21% of domestic natural gas production. The Gulf of Mexico is the most prolific producing offshore region, providing 27% of the oil and 20% of the natural gas produced domestically. The share of Gulf of

Mexico production is expected to rise within the next several years to about 23% of natural gas and 40% of oil domestic production.

Sale 181Area

In 1999, MMS put out a call for information and notice of intent to prepare an environmental impact statement for a proposed Federal oil and gas lease sale in the area now referred to as the original Sale 181 area. This area, original Sale 181, included an area offshore of Alabama beginning 15 miles south of the Alabama coast and an area offshore of Florida more than 100 miles from the Florida coast. It included 1,033 lease tracts covering 5.9 million acres.

In 2001, the Secretary of the Interior spent a great amount of time speaking with officials and citizens of the affected states around the original Sale 181 area. Based on those discussions, a decision was made to modify the 181 area that would be offered in the December 2001, lease sale and that would become available for leasing during the 5-Year Oil and Gas Leasing Program for 2002-2007. This modification reduced the acreage available for leasing in the Sale 181 area from 5.9 million acres to 1.5 million acres. At the time, the Department projected the adjusted area contained an estimated 1.25 trillion cubic feet of natural gas and 185 million barrels of oil.

There have been three sales held in the modified Sale 181 area. The first, Sale 181, held in December 2001; Sale 189 in December 2003; and Sale 197 in March 2005. The results of Sales were as follows:

Sale 181: 95 leases were awarded, with total high bids of $340,474,113.
Sale 189: 14 leases were awarded, with total high bids of $8,376,765.
Sale 197: 10 1eases were awarded, with total high bids of $6,595,753.

There have been a total of 26 exploration wells drilled on the leases in this area. The first discovery on leases issued in these recent sales was announced in 2003 with seven additional discoveries subsequently announced. These discoveries are predominately natural gas.

Five independent exploration and production companies and a mid-stream energy company have come together to facilitate the development of multiple ultra-deepwater natural gas discoveries located in the Central and Eastern Gulf of Mexico, including all of the 7 discoveries mentioned above. The fields' water depths range from 7,800 to 9,000 feet. The production from these discoveries will be tied-back to a central platform, *Independence Hub,* which will be located on unleased Mississippi Canyon Block 920 in the Central Gulf. First production is expected in 2007.

5-Year Program for 2007-2012

In August 2005, the Department began the process of developing the next 5-Year Oil and Gas Leasing Program 2007-2012 by requesting comments on all OCS areas, including the Sale 181 area. On February 8, 2006, the Department announced its draft proposed program for the 5-year OCS Oil and Gas Leasing Program 2007-2012. This was the second step in a 5-step process which affords substantial opportunity for public comment. Under the draft proposal, the MMS would plan on conducting a lease sale in a larger part of the original Sale 181 area in the fall of 2007.

On January 3, 2006, the Department published in the *Federal Register* revised administrative lines that differentiate Federal waters of the Eastern, Central and Western Gulf of Mexico. These lines were drawn on the principle of equidistance. It is now clear which area of Federal waters is off the coast of each state. These lines are purely administrative with no legal effect on civil or criminal jurisdiction. We published the lines because the OCS is more and more subject to multiple-use activities, and it became timely to delineate zones of interest of coastal states in Federal waters.

The draft proposal includes consideration of leasing in an expanded area within the original Sale 181 area. The expanded area is approximately 2 million acres now located within the Central Gulf Planning Area under the new administrative lines. This area is in addition to the 1.5 million acres within the original Sale 181 area already offered for leasing under the current 2002-2007 5-year program.

MMS estimates that most of the prospective tracts in this area would be leased out within 5 years, under annual sales, and that the first production would occur within 5 years of the first sale.

The Sale 181 area, which we believe has a huge potential for natural gas and oil resources, is not under Congressional moratorium or Presidential withdrawal. Nevertheless, in accordance with the Secretary's commitment, the draft does not propose any leasing within 100 miles of the coast of Florida, including that portion of the Sale 181 area which is now in the Central Gulf Planning Area. No lease sale is proposed in the Eastern Gulf Planning Area. This respects the commitment made by the Secretary, which was reiterated in the August 2005 Request for Information, that the Secretary "had no intention of offering for leasing areas in the Eastern Gulf of Mexico Planning Area within 100 miles of the coast of the State of Florida."

In addition, the area proposed for leasing is west of the Military Mission Line (86 degrees, 41 minutes West longitude) and would not interfere with military readiness or training. We work extensively with the Department of Defense on all oil and gas leasing on the OCS and envision this relationship to continue with future leasing decisions.

The draft proposed program would continue to schedule annual area-wide lease sales in the Central and Western Gulf Planning Areas, as has been the customary practice.

The area south of the original Sale 181 area that is west of the new administrative line has been included for analysis. This area is currently under both Presidential withdrawal and Congressional moratorium; both of these would need to be removed before this area could be offered for lease. It is estimated that there could be 700 million barrels of oil and 3.68 trillion cubic feet of natural gas in this area. This area warrants further analysis and consideration in order to inform future decisions as to whether or not to include the area in the final program. Therefore, the draft proposed program notes that subsequent annual Central Gulf sales may consider the area to the south. No sale will be held unless the moratorium is discontinued by Congress and the Presidential withdrawal is modified. In addition, pursuant to Section 18 of the OCS Lands Act, no sale will be proposed until all affected states have the opportunity to comment.

2006 Resource Assessment

Concurrent with the draft proposed program, MMS released two documents: (1) *Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2006;* and (2) the *Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources*, which was sent to Congress. These documents report MMS's new estimates for the total endowment of technically recoverable oil and gas resources for the entire OCS, including areas under Congressional moratoria or Presidential withdrawal. In the draft proposed program for 2007-2012, numbers were predicated on the 2003 estimates. These numbers will be updated in the proposed program that will be released in the summer of 2006.

MMS periodically updates its resource assessments to include any new data and information, incorporate advances in exploration and development technologies, and use new assessment methods. MMS did not directly acquire or contract for the acquisition of new seismic data or the drilling of wells. All of the data used was commercial data or published scientific research.

The Department has completed eight comprehensive resource assessments since 1976. During this timeframe, the magnitude of resources believed to be technically recoverable continued to grow with each assessment in those areas with leasing activity.

Estimates for the Sale 181 Area

MMS has examined the resource potential of the Sale 181 area under the 2003 interim update. Based on those assessments, we have estimated that the portion of the Sale 181 area east of the area currently available for lease has a potential of 930 million barrels of oil and 6.03 trillion cubic feet of gas. This is the area proposed in S. 2253. By contrast, the new area included in the Draft Proposed Program for 2007-2012 is estimated to contain 530 million barrels of oil and 3.42 trillion cubic feet of gas.

S. 2253

Mr. Chairman, I will now turn to S. 2253, the legislation that you, along with Senators Bingaman, Talent and Dorgan, introduced last week. The legislation would require the Secretary of the Interior to offer a large portion of the Sale 181 area for oil and gas leasing within one year of enactment. We support the goals of the legislation and we appreciate your efforts to make additional energy resources available for our nation. This proposal would make 3.6 million acres available for lease while maintaining a 100 mile buffer zone along the Florida coast. Leasing in the area east of the Military Mission Line, an area of approximately 725,000 acres, would be subject to the agreement and approval of the Secretary of Defense.

The work MMS must conduct to comply with the National Environmental Policy Act, Marine Mammal Protection Act, Endangered Species Act, and Coastal Zone Management Act is very similar for the sale included in its draft proposed oil and gas leasing program as for the lease sale called for in S. 2253. Mr. Chairman, we look forward to working with you and your staff on this legislation.

Conclusion

This Administration and the Department of the Interior remain committed to ensuring that the OCS remains a solid contributor to the nation's energy needs. The relative contribution from federal offshore areas will increase in the upcoming years due to activity in the deep water areas of the Western and Central Gulf of Mexico.

Mr. Chairman, this concludes my statement. Please allow me to express my sincere appreciation for the continued support and interest of this committee for MMS's programs. It would be my pleasure to answer any questions you or other members of the Committee may have at this time.