Remarks Prepared for
R. M. "Johnnie" Burton
Acting Assistant Secretary, Land and Minerals Management
Department of the Interior

Rotary Club, City Center
Philadelphia, Pennsylvania
May 11, 2006

Introduction

It's a real pleasure to be in Philadelphia, and I appreciate Scott Donahue arranging for me to be with you today to discuss the Department of the Interior's energy programs. Many people do not realize that the Interior Department manages energy development.

Interior's Role in Energy Development

In fact, about a third of the energy produced in the country each year comes from public lands and resources managed by Interior. 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. (Note: Broken down it is 35 percent of natural gas; 35 percent of oil, 44 percent of coal, 17 percent hydro, and 50 percent of geothermal from Interior)

Energy Development – Started in Pennsylvania

The history of modern energy development started right here in Pennsylvania – Titusville to be exact. It was 1859 when Edwin Drake invented a rig that successfully drilled down into the ground and brought up oil. Back then, homes and businesses were powered almost entirely with one source of energy – firewood, and light came from burning whale oil.

It wasn't oil, but coal, that would emerge as America's next major energy source in the mid-1880s. "Old King Coal" reigned as the undisputed king until the 1920s when America finally began to figure out what to do with Drake's invention.

And now – less than a century later, the U.S. consumes about 25% of the world's total production of oil, about 21 million barrels per day. Unfortunately, we only produce about 8 million barrels per day. This shortfall makes us dependent on other, sometimes unstable, governments, and that can have serious national security implications.

America's Huge Energy Appetite

We consume a tremendous amount of energy in all of its forms – oil, natural gas, coal and renewable energy. In fact, we recently began importing natural gas – something we use to have plenty of.

The Department of Energy's 2006 Outlook released in March contains good news and bad news on future energy demand. The good news is that future demand is likely to be *less* than what was predicted just a year ago. This is because the Energy Department anticipates positive effects of the Energy Policy Act passed last August, along with increased efficiencies and a slight slowing of new demand caused by higher energy prices. There is "demand destruction" which means businesses are going away, and that's the bad news.

And yet total energy consumption is still expected to grow more than 25% over the next 20 years in this country alone, and that includes growth in every sector.

And no wonder. The size of the average house in this country has increased more than 50 percent in the last 30 years. And we are building more houses and offices each year, and that requires more energy to heat, cool and light these spaces. One of the most dramatic increases in energy use, according to the Energy Department, is in electronics such as computers and large plasma TVs. Consumer electronics make up 20 percent of all household energy use today, compared with 5 percent just 25 years ago.

So, although technology has made us more energy efficient in many ways, 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.

A Global Trend

Increased energy demand is not unique to America; it is a global trend. China alone has accounted for one-third of the increase in global oil demand since 2000. With rapid development in China and India, energy demand is expected to more than double in those countries in the next 25 years. In other words, the world needs unprecedented amounts of energy, and soon.

President's Energy Policy

President Bush's National Energy Policy and the Energy Policy Act of 2005 provide a comprehensive framework for the nation to realistically address this serious energy situation. In the short term we must:

1) Learn to conserve energy and be more efficient in our use of it, (This lowers the demand for energy)
2) Diversify our energy supply, (This lowers our dependence on any one source) and,

3) Increase domestic production of oil and natural gas in an environmentally sensitive manner. (This increases our supply)

In his 2006 State of the Union address, the President underscored the importance of decreasing our dependence on fossil fuels and working to develop renewable sources of energy such as nuclear, wind, hydrogen and biofuels. These alternative sources of energy are important; they may one day replace fossil fuels, and we are facilitating development of these renewable sources of energy on public lands. But we need a bridge to get there. That bridge is oil and gas.

MMS and BLM energy development role

Let me give you a brief overview of the Department of the Interior's role in oil and gas production here at home. The Minerals Management Service (or MMS as we call it) oversees offshore production while the Bureau of Land Management (or BLM) manages onshore production of federal oil and gas resources. 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 the largest resources of oil and gas in the country. These are found underlying 1.76 billion acres of federal offshore submerged lands on the Outer Continental Shelf (OCS). These lands have produced close to 10 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.

While 85 percent of the OCS is under moratoria, and therefore not accessible for exploration and production, it still supports close to 2,000 producing leases that contribute about 1.6 million barrels of oil and 10 billion cubic feet of natural gas *per day* for U.S. consumption.

And there is potential for developing much more. New technology now allows drilling in areas once believed to be impossible. Thirty years ago, 600 feet was considered deep water drilling; today, 10,000 feet is possible. MMS just released a new assessment of OCS resources -- we estimate there are 86 billion barrels of oil and 420 Tcf of natural gas remaining to be discovered offshore. The problem is that most of it is not accessible.

Five basins in the Rocky Mountains, together, hold the next largest resources of natural gas (second to the OCS). These basins in Wyoming, New Mexico, Colorado, Montana and Utah, contain an estimated 139 Tcf of gas - enough to heat 55 million homes for almost 30 years.

As far as oil is concerned, these same lands are estimated to hold more than 3.5 billion barrels of oil. More than half of these lands are under BLM management.

Alaska holds the Nation's single greatest prospect for onshore oil development in the near term. The Arctic National Wildlife Refuge (or ANWR), holds an estimated 10.4 billion barrels of technically recoverable oil.

To the west is the National Petroleum Reserve - Alaska (NPR-A) which is managed by the BLM. The USGS estimates the NPR-A holds 10.6 billion barrels of technically recoverable oil. In the Northeast Section of NPR-A where leasing and exploration have already begun, it is estimated that there are over two billion barrels of technically recoverable oil.

In other words, we can decrease our dependency on other countries, although we can't be totally energy independent.

Environmental Considerations

Whether onshore or offshore, all of our energy activities must 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 affected by energy development. BLM manages 700 million acres of subsurface mineral estate. Less than 12 million acres (or 1.7% of the 700 million acres) are "producing," and only about 390,000 acres (less then a tenth of a percent of the 700 million acres) are directly disturbed by development.

Offshore, more than 85% of the OCS is off-limits to oil and gas exploration and production. Before off-shore exploration occurs, scientists from many organizations conduct comprehensive environmental reviews to make sure ecosystems are protected. MMS has geologists, oceanographers, geophysicists, engineers and biologists on staff to ensure decisions are based on science. And new technology and best management practices reduce the environmental risks associated with producing oil and gas, both onshore and offshore.

All of this was really put to the test last year with the violent hurricane season. While there was horrific destruction onshore, and a lot of damaged infrastructure offshore, we learned that development on the Outer Continental Shelf is indeed being managed safely. Of the more than 4,000 platforms in the Gulf, 113 were destroyed and 52 were damaged, but there were no fatalities among offshore workers, and there were no significant spills from offshore wells. Even in the devastating winds and waves of Hurricanes Katrina and Rita, 100 percent of the subsurface safety valves closing in production from wells functioned efficiently.

Benefits of Energy Production

However, the impacts of the hurricanes on our energy supply last year sent a clear message to all Americans – Off-shore energy production matters. What we previously took for granted is suddenly appreciated.

In addition to the obvious – that oil and gas development provides much needed energy – domestic energy production benefits Americans in numerous other ways.

It keeps jobs here at home. Energy and related industries employ hundreds of thousands of people. Energy production generates billions of dollars in royalties and other payments that ultimately go to the American people.

MMS collects these and redistributes 50 percent back to the state where the minerals are produced Last year, MMS collected 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 you in a number of ways - through U.S. Treasury funds, State revenues, the Land and Water Conservation Fund and Historic Preservation Fund projects.

In spite of the fact that it all started here, Pennsylvania is not a producing state and receives practically no royalty revenues. However, Pennsylvania benefits from MMS's distributions to the Land and Water Conservation Fund. This money comes from *off-shore* energy production. So even though Pennsylvania does not have off-shore energy development, more than $6.8 million in Federal grant money has come to your state through the Land and Water Conservation Fund during the last 3 years.

This money goes into parks and recreational areas, habitat and scenic beauty. Here in Pennsylvania, grants have helped rehabilitate the Big Savage Tunnel in the Great Allegheny Passage (to the tune of $2 million), and complete the Black Rock Sanctuary in Chester County, providing $175,000 of the total $195,000 project cost.

Importance of Energy to Businesses

But there is an even stronger link between domestic energy development and the Pennsylvania economy. Business needs affordable energy. I spoke earlier about energy demand in our homes and offices. But now I'd like to address our dependence on energy as a feedstock, or raw material. Many people do not realize that natural gas is used to make a number of everyday products - such as plastics, fertilizer, carpets, tires, even paper cups.

Natural gas prices have more than doubled over the last few years. Economic survival can become very difficult if your business plan is built on $2-3 an MCF and you are billed twice that, or more. This is driving businesses overseas.

About a month ago, representatives of a group of industrial consumers came to see the Interior Secretary and mentioned all the job opportunities lost in the last 3 years, and the huge chemical plant investments being done overseas where natural gas is cheaper and available.

More than 3 million high-wage manufacturing jobs have been lost in this country since 2000 because of high natural gas prices. It used to be, companies moved overseas in search of cheap labor. Now, increasingly, it is for cheaper natural gas.

The U.S. forest products industry has been particularly hard hit – energy costs for pulp and paper mills have risen 50% in three years. This industry has closed 232 mills and lost 182,000 jobs since 2000.

Schools, local governments and hospitals are affected. The Loudoun County, Virginia, school system anticipates a $537 million-dollar budget shortfall in 2005 due to high natural gas prices.

High natural gas prices affect everyone, as those costs are passed down to consumers. At the same time, high gasoline prices, which reflect the high price of oil, are also hurting businesses and families.

Five-Year Plan

So how can we increase our supply of oil and gas? We feel our efforts to produce more here at home is vital. And one area of emphasis is the Outer Continental Shelf, where, as I mentioned earlier, has our greatest resource of oil and gas.

MMS is currently involved in a comprehensive 5-year planning effort that will determine areas to be considered for Federal offshore natural gas and oil leasing between 2007-2012. The plan proposes to expand into some new areas that have been off the table for a decade or more. This is an important issue and an integral part of the larger national dialogue on our energy future.

The entire process of developing the Five-Year Plan is open to the public. We just completed series of public meetings in Alaska; Virginia; and the Gulf Coast States of Texas, Louisiana, Alabama, and Florida. The discussions were healthy and vigorous, and mostly in favor of additional energy exploration in America's offshore areas. We received more than 39,000 comments with over 2/3rds in favor of production expansion at home.

This indicates to me that most people would rather rely on domestic energy resources and keep the jobs here at home, rather than send them abroad. Oil and gas can be produced safely and cleanly onshore and offshore. We have the know-how, we have the resources, we need the political will to open access to these resources, particularly offshore.

As I mentioned earlier, two major hurricanes just blew through the heart of the Gulf oil patch without a single significant spill from a platform in federal waters. That's a pretty strong testament to our environmental and safety record.

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, national marine sanctuaries, 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. That is what the President 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."

Thank you.