STATEMENT OF
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BEFORE THE
HOUSE COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

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Thank you for the opportunity to appear before the Subcommittee today to discuss with you the Department of the Interior's Minerals Management Service (MMS) Outer Continental Shelf (OCS) oil and gas leasing program. This Subcommittee has played an important role in shaping the Nation's domestic energy program, particularly with regard to encouraging environmentally sound development of our domestic oil and gas resources on the OCS.

The Department and its bureaus, including the MMS, serve the public through careful stewardship of our nation's natural resources. The Department also plays an important role in domestic energy development. One third of all energy produced in the United States comes from resources managed by the Interior Department.

The MMS has two significant missions: managing access to offshore Federal energy and mineral resources and managing revenues generated by Federal and Indian mineral leases, on and offshore.

Managing access has resulted in OCS production of almost 11 billion barrels of oil and more than 116 trillion cubic feet of natural gas since MMS's creation in 1982. To date since 1982, the number of active OCS leases has increased by 172 percent and oil production is about 59 percent greater, in spite of the drop in production from the 2004-2005 hurricane seasons.

Nation's Energy Outlook

The United States continues to face an energy challenge with high prices and increasing dependence on foreign supplies. Our security, economy, and our quality of life are dependent on energy. As this Committee knows well, there is no single solution. Achieving energy security will require diligence on both the supply and demand sides of the energy equation.

Oil will continue to be vital to the American economy. According to the Energy Information Administration (EIA), over the next 20 years Americans' demand for energy is expected to grow 25 percent. [See figure A: EIA projection of U.S. energy consumption] Even with more renewable energy production expected, oil and natural gas are projected to account for a majority of energy use through 2030. This projection incorporates continued gains in energy efficiency and movement away from energy-intensive manufacturing to less energy intensive service industries. Offshore oil and gas production will continue to be a vital part of our Nation's domestic energy resource portfolio. [See Figure B: EIA projection of U.S. energy resource production]

Continued reliance on oil and natural gas coupled with the need to reduce our dependence on foreign energy supplies causes us to look increasingly at the potential oil, natural gas and other energy resources from Federal waters on the Outer Continental Shelf (OCS) to enhance environmentally safe domestic energy production.

Today, MMS administers about 7,800 leases and oversees nearly 4,000 facilities on the OCS. Based on EIA's reports on imports by country of origin, if the Federal OCS were treated as a separate country, it would rank among the top five nations in the world in terms of the amount of crude oil and second in natural gas it supplies for annual U.S. consumption. According to MMS's calculations, within the next 5 years, offshore production will likely account for more than 40 percent of domestic oil and 25 percent of U.S. natural gas production, owing primarily to deep water discoveries in the Gulf of Mexico.

OCS Role in Nation's Energy Portfolio

Much of the future United States oil and gas demand will have to be met by OCS production, especially from new areas in the Gulf of Mexico and Alaska.

The Gulf of Mexico continues to represent a major domestic energy source for the United States. There is intense interest in oil and gas potential in the deep and ultra-deep water areas. Exploratory drilling in the deep water increased in 2005 despite the disruptions caused by hurricanes; and 12 new deep water discoveries were announced in 2006. Recent discoveries in the ultra-deep waters of the Gulf of Mexico represent a significant increase in oil and gas supplies for decades to come. The large volume of active deep water leases, the steady drilling program, and the significant, ongoing investment in deep water infrastructure indicate that the deep water Gulf of Mexico will continue to be an integral part of the Nation's energy supply.

The EIA data[1] shows a trend of increasing oil production from the OCS to about 750 million barrels per year by 2011. EIA projects natural gas production to increase to 4 trillion cubic feet by 2012 and sustain that level through approximately 2019. Significant additional oil and natural gas production is expected when new projects, like Atlantis, Thunder Horse, and Independence Hub, come on line in 2007 and 2008. However, new deep water natural gas production may not keep pace with the expected declines in production from the shallow waters of the Gulf of Mexico, and we anticipate natural gas production in the near term to be somewhat lower.

To encourage energy development from Federal offshore lands, MMS provides an orderly and predictable schedule of competitive oil and gas lease sales. Production from leases issued as a result of these sales will contribute substantially to future domestic oil and gas production and will provide bonuses, rentals and royalties to the U.S. Treasury and adjacent coastal states.

2006 Resource Assessment

[1] Energy Information Administration, Annual Energy Outlook 2007 Data (National Energy Modeling System run AEO2007.D112106A).

Last year, as part of the OCS inventory requirements of the Energy Policy Act of 2005, MMS completed an assessment of the potential quantities of undiscovered technically recoverable oil and gas resources that may be present on the OCS[2]. According to this assessment, we estimate (at the mean level) that the OCS contains 86 billion barrels of oil (as oil and natural gas liquids/condensate) and 420 trillion cubic feet of natural gas. For comparison, the most recent resource estimates from the United States Geological Survey National Oil and Gas Assessment indicate that the total mean, undiscovered technically recoverable resources for onshore and State owned waters offshore are approximately 57 billion barrels of oil (as oil and natural gas liquids/condensate) and 627 trillion cubic feet of natural gas. Thus, the OCS contains about 60 percent of the Nation's remaining undiscovered technically recoverable oil (as oil and natural gas liquids/condensate) and 40 percent of its natural gas. [See Figure C: Resource Assessment Map]

Of the 1.76 billion acres of Federal offshore lands on the OCS, about 600 million acres are not available for oil and gas leasing. When the 2006 resource assessment was completed, areas under congressional moratoria or Presidential withdrawal included the North Aleutian Basin off Alaska, the Pacific, the Eastern Gulf of Mexico, and the Atlantic. The potential resource in these areas is estimated to be approximately 18 billion barrels and 76 trillion cubic feet of gas, or approximately 20 percent of the undiscovered technically recoverable resources in the OCS. There is great uncertainty regarding the resource potential in areas where leasing has been prohibited and where the last geophysical surveys and drilling exploration occurred more than 25 years ago.

Five-Year OCS Oil and Gas Leasing Program

The Outer Continental Shelf Lands Act (OCSLA) requires the Secretary to develop a 5-year schedule of oil and natural gas lease sales in specific offshore areas. These specific areas are to be selected after an analysis comparing oil and gas bearing regions of the OCS and receipt of public comments, including comments from each coastal state governor. Our current program runs through June 30, 2007. MMS has recently completed work on the next five year program, which will cover July 1, 2007 through June 30, 2012.

The OCSLA requires the Secretary to determine size, timing, and location of sales proposed in a 5-year program. Section 18 of the OCSLA requires an analysis of the economic, social, and environmental values of all of the resources of the OCS and the potential impact of oil and gas exploration on the environment. Specific factors which must be analyzed and considered in deciding where and when to lease include:

- existing information on the geographical, geological, and ecological characteristics of such regions;
- equitable sharing of developmental benefits and environmental risks among the various regions;
- location of such regions with respect to regional and national energy markets;
- location with respect to other current and anticipated uses of the sea and seabed;

[2] Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources. http://www.mms.gov/revaldiv/PDFs/FinalInvRptToCongress050106.pdf

- expressed industry interest;
- laws, goals, and policies of affected states specifically identified by governors;
- relative environmental sensitivity and marine productivity of different areas of the OCS; and
- environmental and predictive information for different areas of the OCS.

The Act requires the Secretary to obtain a proper balance between the potentials for environmental damage, the discovery of oil and gas, and adverse impact on the coastal zone, using cost-benefit analysis.

It takes over two years to complete the Section 18 process. Major steps in developing a 5-Year Program include:

- Request for Information (RFI) (this is only a request for information – not a specific proposal)
- Draft Proposed Program (all areas identified in the RFI that are not proposed for leasing consideration are excluded at this stage)
- Proposed Program/Draft Environmental Impact Statement (EIS)
- Proposed Final Program/Final EIS
- Approval
- New Program in Effect (for next 5 years)

Public meetings were held throughout the areas that were considered for future leasing and comments solicited, analyzed, and incorporated where appropriate. This 5-Year Program had a significant outpouring of comment, especially from the general public. Over 73,600 comments were received on the Proposed Program. Out of these comments, over 73,400 were from the general public. A majority of the commenters, almost 75 percent, supported a 5-year plan that offers increased acreage for offshore oil and gas development planning. These comments focus on the instability in the Middle East, American military operations in Iraq, and high energy prices in the United States. Approximately 25 percent of the private citizens who wrote letters oppose development of the domestic OCS, viewing the environmental hazards as too great a risk for limited energy resources.

Proposed Final OCS Oil and Gas Leasing Program for 2007-2012.

On April 30, the Secretary of the Interior transmitted to Congress and the President the Proposed Final 5-Year Outer Continental Shelf Oil and Gas Leasing Program. This Program will guide the Department's decisions on domestic energy leasing on the OCS from 2007 to 2012. As required by section 18 of the OCSLA, the Secretary may not approve the final program until at least 60 days following submission to Congress and the President. Therefore, the Secretary may approve this new program tomorrow, June 29. The program would then take effect on July 1.

The 2007-2012 Program proposes 21 lease sales in eight planning areas. Twelve sales are proposed for the Gulf of Mexico, eight off of Alaska and one in the Mid-Atlantic Planning Area, off the coast of Virginia. Our analysis indicates that implementing the new 5-Year Program for 2007-2012, would result in a mean estimate of an additional 10 billion barrels of oil, 45 trillion cubic feet of gas, and $170 billion, in today's dollars, in net benefits for the nation, over a 40-year time span.

The Program proposes to continue annual lease sales in the Central and Western Gulf of Mexico. The Program proposes to offer new areas of the "Sale 181 Area" in the Central Gulf in October 2007. In accordance with the Gulf of Mexico Energy Security Act, signed by President George W. Bush on December 20, 2006, new acreage will be offered in portions of the Sale 181 Area in the Eastern Gulf in March 2008, as well as the "181 South Area" in the Central Gulf, which is scheduled to be offered in 2009, following completion of the supplemental environmental impact statement. The total acreage of new areas in the Gulf offered under the proposed program is 8,337,443 acres.

The leasing program proposes a schedule of eight sales in Alaska: two in the Beaufort Sea; three in the Chukchi Sea; up to two in Cook Inlet; and one in the North Aleutian Basin. These areas would be subject to environmental reviews, including public comment, and extensive consultation with state and local governments and tribal organizations before any lease sale decisions are made.

The Program also includes a proposed sale in the Mid-Atlantic Planning Area, beyond 50 miles of the coastline of Virginia, in late 2011. This area was included in the Program at the request of the Commonwealth of Virginia. This proposed sale area excludes a 50-mile coastal buffer from leasing consideration as requested by the Commonwealth of Virginia, as well as a No-Obstruction Zone at the entrance to the Chesapeake Bay where no leasing would take place. A decision to hold a lease sale will not be made without additional consultation and more site-specific analysis of its environmental effects under the National Environmental Policy Act (NEPA).

We at MMS know that there has been particular concern over the proposed sales in the Mid-Atlantic and North Aleutian Basin. The Mid-Atlantic area remains under Presidential withdrawal and Congressional moratorium; therefore no leasing can occur unless the congressional moratorium is discontinued and the presidential withdrawal is modified for this area.

The situation is different in the North Aleutian Basin (NAB). Congress placed the NAB under congressional moratorium from FY 1990 through FY 2003, after which Congress no longer included a rider to prohibit development in NAB. In 1998, President Clinton withdrew the NAB and other areas from leasing consideration through 2012. On January 9, 2007, the President modified the 1998 withdrawal in order to allow leasing in two areas previously closed – the 181 South Area in the Central Gulf of Mexico and the NAB.

Modification of the withdrawal with regard to NAB was supported by the State of Alaska, the Alaska delegation, and the local communities closest to the proposed sale area, including the Aleutians East and Aleutians West Boroughs, Bristol Bay Native Corporation, and cities of Cold Bay, Sand Point, and False Pass. The MMS will prepare an environmental impact statement, with opportunity for public comment, and consult with the State of Alaska under the Coastal Zone Management Act before any decision is made to hold a lease sale in this area. The

Secretary and MMS are committed to continuing the extensive consultation and cooperation with the State and local governments and tribal organizations which began during the preparation of the new 5-Year Program. The Proposed Final Program includes only one lease sale in this area in 2011, a change from the two sales originally proposed in the two earlier proposed schedules. The decision to change the proposed schedule from two sales to one sale was made in order to have time to develop the information that MMS considers necessary for an informed decision.

The only sale held to date in the NAB was Sale 92 in 1988 which resulted in 23 leases being issued. In 1995, all 23 leases were relinquished for compensation in a settlement of litigation. Therefore, there are no existing leases currently in the NAB.

In anticipation of possible leasing in the NAB under the new Program for 2007-2012, MMS began conducting environmental studies within the NAB Planning Area and is actively working with other federal, state, and local agencies to understand and address area concerns. The MMS takes very seriously the environmental protection expectations of stakeholders and the public and ensures compliance with laws such as the National Environmental Policy Act (NEPA), Outer Continental Shelf Lands Act (OCSLA), Coastal Zone Management Act (CZMA), Endangered Species Act (ESA), Marine Mammal Protection Act (MMPA), Magnuson Fishery Conservation and Management Act, Oil Pollution Act (OPA), Clean Air Act (CAA), and Clean Water Act (CWA).

Before making a decision to proceed with the proposed NAB sale, MMS would complete an anticipated 2½ to 3 year pre-sale and NEPA process, which would include preparation of an environmental impact statement based on the most current and best scientific information. The MMS will use new information obtained through its Environmental Studies Program and other available information acquired from other research programs and studies in that region. The MMS Environmental Studies Program has a long history of appropriately identifying and obtaining needed mission-relevant environmental research. This work is a key strength of MMS's pre- and post-lease environmental assessment and monitoring efforts.

The first major step to plan new environmental studies in the NAB area occurred with the MMS-sponsored NAB Information Status and Research Planning Meeting held in Anchorage November 28 – December 1, 2006. The four-day meeting gathered input from stakeholders, scientists, and government administrators with particular knowledge and expertise on resource use in the area. Of the 111 meeting participants, MMS directly funded the travel expenses of 16 local stakeholder delegates to ensure strong representation from the local residents of each regional borough.

Speakers and meeting participants emphasized the critical importance of resources in the NAB, including human subsistence resources, commercial fisheries, and internationally important bird and marine mammal populations and habitats. Study profiles for new research efforts were developed at the meeting, representing the information priorities identified by the working groups. As a start, beginning this year MMS and National Marine Mammal Laboratory of the National Oceanic and Atmospheric Administration (NOAA) are co-funding a $5 million, three and a-half year study of the North Pacific right whale. Additional studies will be considered for fieldwork in 2008 and beyond. MMS will coordinate studies with other federal and state agencies and groups such as the North Pacific Research Board.

As part of our NEPA scoping process, MMS will seek information from local communities and stakeholders early in the EIS process. As a commitment to Alaska Governor Palin, Secretary Kempthorne has directed MMS to work closely and cooperatively with the State of Alaska, the Aleutians East Borough (AEB), and others in the area during the planning process for the lease sale. This includes having the AEB participate in the preparation of the EIS, assessing mitigation needs, and developing stipulations to protect social and environmental concerns, especially the valuable fisheries and subsistence uses of the area.

MMS will seek and consider the advice from expert agencies, such as NOAA's National Marine Fisheries Service, the Fish and Wildlife Service (FWS), National Park Service (NPS), U.S. Coast Guard, U.S. Environmental Protection Agency, State of Alaska agencies, local government, and federally recognized tribes. Further, during the pre-sale process, MMS will conduct related consultation including consultation with NOAA and FWS under Section 7 of the Endangered Species Act, essential fish habitat consultation with NOAA under the Magnuson-Stevens Fishery Conservation and Management Act, consultation with NOAA under the Marine Mammal Protection Act, and Section 106 consultation with the State Historic Preservation Office as required by the National Historic Preservation Act of 1966. MMS will also conduct Government-to-Government consultation with potentially affected tribes.

Conclusion

The Department of the Interior and the MMS remain committed to doing their part to provide access to both traditional energy resources and alternative and renewable sources on Federal lands as a critical component of a balanced, comprehensive energy policy. For this reason, the Department has ensured that the OCS remains a solid contributor to the Nation's energy needs. The relative contribution from Federal offshore areas will increase in the coming years due to increased access and increased activity in the deep waters of the Gulf of Mexico.

Mr. Chairman, this concludes my statement. I appreciate the continued support and interest of this Committee in MMS's programs. It would be my pleasure to answer any questions you or other members of the Committee may have at this time.