

Testimony Before the House Select Committee on Energy Independence and Global Warming

Marc W. Smith
Executive Director
Independent Petroleum Association of Mountain States

July 29, 2008

Mr. Chairman and Members of the Committee—thank you for the opportunity to be here today to discuss the essential role that natural gas will continue to play in our nation's energy policy and the importance of continued access to our federal lands in order to meet America's growing energy needs.

I am here today on behalf of the Independent Petroleum Association of Mountain States (IPAMS). IPAMS is a non-profit organization representing more than 400 independent oil and natural gas producers, pipeline and gathering companies, service and supply companies, financial institutions and industry consultants committed to environmentally responsible oil and natural gas development in the Intermountain West.

Although you are probably not familiar with the names of most independent oil and natural gas companies, they create the backbone of our nation's energy supply, drilling 90% of U.S. wells and producing 82% of our nation's natural gas. These companies are mostly small businesses that don't have refining and retail operations such as gasoline stations, but instead direct their efforts toward finding and producing oil and natural gas here in the U.S. In fact, most independents reinvest 100% or more of their American cash-flow into new American development projects.

America's independents are a true home-grown success story. They are energy farmers who have survived decades of turbulent cycles in the energy market and never gave up. Armed with new technologies and a new generation of high-tech savvy employees, they are producing energy from complex tight sand and shale reservoirs that were thought to be uneconomic just 10 years ago. Much of their success story revolves around natural gas and the hope it brings as we try to tackle the twin goals of energy independence and a creating a less carbon intensive economy.

Since natural gas is clean, abundant and domestically produced, it has long been viewed as an attractive fuel for peak-load electricity generation, space and water heating, transportation, and manufacturing uses. It is also critical to food production and industrial and petrochemical applications.

Fortunately, the technology needed to produce additional natural gas already exists. It has been tested and proven capable of providing a safe, reliable and

affordable domestic supply of energy. U.S. natural gas production has increased eight to ten percent this year, while demand is growing at a rate of less than one percent.

Natural gas doesn't compete with renewable energy; in fact it helps make the vision a reality. Greater energy production from intermittent sources of power like wind and solar are possible because natural gas electric generation is available to fill-in during the large gaps of time when the wind isn't blowing and the sun isn't shining. Renewable sources of energy make up only a tiny fraction of electrical power today (wind produces 0.77 percent of the total electrical power supply and solar produces 0.01 percent of the total electrical power supply). As more energy comes from these sources, however, more natural gas will be needed to back it up.

As the cleanest burning fossil fuel, natural gas will also play an increasingly important role in a carbon-constrained world as an essential part of any plan to reduce greenhouse gas emissions. Recent studies predict that increased supplies of natural gas will be needed in order to implement the climate change policies under consideration today.

Policies that intentionally place limits on the development of new supplies of natural gas from onshore and offshore federal lands are counterproductive to the goals of both energy independence and reducing the carbon intensity of our economy. It is reckless to promote plans that are designed to fail. If we increase demand for natural gas, we need corresponding policies that plan for the development of new supplies.

Natural gas producers don't need special subsidies. They need access to the places where energy resources are found, and a predictable regulatory and tax structure in order to make long-term investment decisions that ensure uninterrupted supply.

Some of the most promising areas for future development of natural gas are the Outer Continental Shelf (OCS) and onshore federal lands in the Intermountain West. In total, 279 million acres of federal land have oil and natural gas potential. Of these acres, 145 million are closed to leasing, and another 20 million are inaccessible because surface occupancy or ground disturbance is prohibited. This Congress could help put America on a path to greater energy independence and a sustainable energy future by lifting restrictions on OCS drilling and addressing the barriers that are limiting development of new supplies in the Intermountain West.

The Intermountain West is best poised to help the U.S. meet its near and mid-term energy needs. Natural gas production has grown more than 50 percent across the region during the last decade. This year alone, natural gas production in the Intermountain West has grown by nearly one billion cubic feet at day

(Bcfd). Most are surprised to learn that the region supplies more than 25% of our nation's natural gas while occupying less than one percent of federal lands in the region. This small and temporary disturbance not only creates wealth for federal and state governments through royalties and taxes, it also creates high paying jobs and important economic activity in rural Western economies.

The public lands of the Intermountain West hold vast amounts of natural gas that can supply America with the energy it needs for generations to come. New pipelines will be needed to bring additional supplies to market, but this challenge is small in comparison to the political uncertainty caused by those in Congress who continue to send mixed messages about their support for domestic oil and gas development.

Vast natural gas resources lie beneath our public lands in the West, and access to these lands—which belong to all Americans—is vital if we are to continue supplying American consumers with the energy they need to travel to work, heat and cool their homes, light their offices, and cook their food. According to the Energy Policy and Conservation Act (EPCA) Phase III study, of the 45,660,000 acres of federal lands in the Western region with oil and natural gas potential, leasing is prohibited on 21,943,000 acres (48.1%). Surface occupancy is prohibited on 3,213,000 acres (7%) and 10,295,000 acres (22.6%) have extra with stipulations beyond what is standard lease terms. Only 10,208,000 acres (22.4%) have standard lease terms, which are still very protective when compared to international standards.

Recently, there have been misleading claims that U.S. energy companies are not actively developing the federal lands they already have under lease. As a remedy, Congressional leaders have proposed “Use it or Lose It” legislation (HR 6515). The “use-it or lose it” approach would not solve any problems, and would instead create a new significant hurdle to entrepreneurs in this country willing to risk their capital, and navigate expensive permitting requirements and time consuming roadblocks such as environmental lawsuits, to explore and develop American energy for America.

In the major energy producing states of the Intermountain West (NM, UT, CO, WY, MT) plus North Dakota, there are more than 38,000 active leases, covering more than 31 million acres, slightly over 17 percent of the total mineral acreage administered by BLM in those states (please see accompanying table). Over 10 million acres of these leases – or more than one third the total leasehold acreage – are in “producing status” as determined by BLM. These facts contradict the common misconception that oil and natural gas companies are maintaining large inventories of non-producing leases.

While not every leased acre of land is currently producing energy, independent natural gas companies in the Intermountain West are doing everything in their power to find and produce energy from the lands they lease. With the regulatory

hurdles currently in place and the lawsuits and protests that accompany practically every lease sale, companies are in an all-out sprint to develop their leases within the current ten year lease term. (For more information, please see that attached *Flaws of "Use It or Lose It" Legislation*; and the *Onshore Permitting Flowchart*.)

Not only do we need continued access to federal lands that are currently open for leasing, but future energy demands mean we will need access to lands that are now inaccessible. Drilling new wells is critical to maintaining supply. To highlight this point, consider the fact that 50% of the natural gas we use today comes from wells that were drilled in the last 3 ½ years. In fact, according to Cambridge Energy Research Associates, natural gas drilling in the Intermountain West will need to increase by 75% over the next 10 years to sustain current production levels.

If Congress increases the demand for natural gas by moving forward with cap and trade legislation to reduce CO2 emissions, it should carefully consider policies that ensure timely access to some of the most promising areas for future supplies. Policies that create bureaucratic delays, further limit access to federal lands, and increase financial burdens on domestic energy producers will decrease our supplies of natural gas and deepen our nation's energy challenge.

As this committee examines the daunting task of ensuring America's energy independence and addressing the important issue of climate change, independent oil and gas producers stand ready to help.

Please consider the following list of policy recommendations as tangible near-term steps that can be taken by Congress to increase domestic oil and natural gas supply:

- Congress should increase the budget for the BLM oil and gas program so that the Agency has the necessary staff and resources to process Applications for Permit to Drill (APDs) and Rights of Way (ROW) for gathering and pipeline infrastructure. Congress is currently planning to significantly reduce the BLM budget for managing of oil and natural gas development on federal land. Budget reductions will limit the Agency's ability to process permits to drill and will limit the development of new supplies of oil and natural gas.
- Congress should consider ways to shorten the timeframe for processing APDs and associated environmental analysis. The bureaucratic delays and runaway costs associated with environmental studies provide no additional environmental protections, instead they artificially restrict the development new supplies of oil and natural gas.

- Congress should not delay leasing areas with significant natural gas supplies. Legislation currently pending before Congress, such as the Roan Plateau Oil and Gas Leasing Improvement Act of 2008 (HR 5851), would place significant restrictions on the development of natural gas on the former Naval Oil Shale Reserves 1 & 3 (located on a tiny portion of Colorado's Roan Plateau). The current BLM plan for developing these lands resulted from a nearly decade-long open and public process in which all stakeholders, including Colorado's Congressional delegation as well as private citizens and industry and environmental groups, were given a seat at the table. The current BLM plan is by far the most environmentally restrictive that industry has ever seen, requiring, among other things, that only 1% of the surface be disturbed at any given time.
- Congress should carefully consider how creation of new Wilderness areas will limit America's ability to meet its future energy needs. The Red Rocks Wilderness Act (H.R. 1919 / S.1170) and the Colorado Wilderness Act of 2007 (H.R. 3756) present specific threats to some of our nation's largest supplies of natural gas. Legislation that prohibits energy development on even more of our public land—land that belongs to all Americans—will do nothing to address the energy challenges that we now face.
- Congress should limit the ability of obstructionist groups to stop leasing, exploration and development of federal lands. When such groups file frivolous lawsuits that delay development, they should be required to reimburse the federal government for the opportunity cost of the energy that was not produced.
- Congress should fund the statutorily mandated funds for the Research and Development of New Technology (the Section 999 Program). It is critical that federal energy policy makers understand the opportunities and technological challenges that must be seized upon in order to fully develop our clean domestic natural gas and other petroleum resources.

On behalf of the America's independent energy producers, thank you for the opportunity to appear before you today.