

**TESTIMONY OF RANDALL LUTHI,
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE HOUSE SELECT COMMITTEE
ON ENERGY INDEPENDENCE AND GLOBAL WARMING
OVERSIGHT HEARING ON POLAR BEAR HABITAT LOSS AND
THE CHUKCHI SEA OUTER CONTINENTAL SHELF LEASE SALE**

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Mr. Chairman and Members of Committee, thank you for the opportunity to discuss the Department of the Interior's role in managing energy production on the Chukchi Sea, in the Alaskan Outer Continental Shelf (OCS), and how the Minerals Management Service (MMS) is working under the OCS Lands Act to promote environmentally responsible energy development, in particular our efforts regarding polar bears.

Introduction

The MMS works closely with the U.S. Fish and Wildlife Service (FWS) to ensure the protection of wildlife and the environment as offshore energy development activities take place both in Alaska and elsewhere. The Department of the Interior and its agencies, including the MMS, are public stewards of our nation's natural resources. The Department also plays a vital role in domestic energy development, as one third of all energy produced in the United States comes from resources that it manages. In our view, energy resource development can be achieved consistent with our ongoing stewardship responsibilities, which we do take seriously.

The Need for Energy Security

Our nation's security, economy, and quality of life are dependent on adequate and affordable supplies of energy. Just last week, MMS issued its Record of Decision to move forward with alternative energy development on the OCS, an action that will assist in expanding utilization of renewable energy resources in the United States. This represents an important milestone in charting a course designed to increase our energy security through the responsible development of a diverse variety of resources, and it comes at a critical point in time. Today, we are experiencing a scenario that few envisioned just a few years ago – \$100 a barrel oil. In its Short-Term Energy Outlook (January 2008), the Energy Information Agency projects that the average price for gasoline will climb to nearly \$3.50 a gallon by this spring. Largely as the result of our expanding economy, according to the EIA's Annual Energy Outlook 2008 (Early Release), by 2030 our demand for energy will have grown by nearly 24 percent, at an annual average rate of 0.9 percent per year, even with improvements in our energy intensity—the amount of energy consumed per unit of GDP—that will be delivered by our increased emphasis on conservation and efficiency. During the same period, total

domestic energy production is projected to increase at a slightly slower rate, even though production from renewable energy sources is expected to see significant growth.

Currently, the gap between demand for energy and domestic production is met by energy imports. In 2006, the United States imported over 10 million barrels of crude oil per day and nearly 4.2 trillion cubic feet of natural gas for the year. By 2030, the EIA projects that imports will be needed to meet 29 percent of total U.S. energy needs, down from 30 percent in 2006. We must keep in mind that, because the nation's consumption of energy will be increasing, in 2030, an additional 1.7 million barrels of crude oil per day and 0.6 trillion cubic feet of natural gas above 2006 levels would have to be imported to meet that projected growth.

Concern only increases when we look at forecasts of the world energy picture. According to EIA's International Energy Outlook 2007, world demand for energy is projected to grow at an average rate of up to 1.8 percent per year through 2030. With emerging economies, such as India and China, the competition for energy supply will only increase. To assure our energy and economic security, domestic energy production from all sources must increase.

The EIA also projects that the energy we use in the next 20 years will still be heavily dependent on traditional energy sources – coal, oil and gas. For example, as of 2005 approximately 97% of the fuel used by on-road vehicles was gasoline and diesel. Growing the use of alternative transportation fuels, such as ethanol, is a top priority for the Administration. However, it is important to recognize the enormity of the transformation that the President has called for with his proposal to reduce gasoline consumption by 20 percent over 10 years. Dramatic reductions in fossil fuel consumption by automobiles will not occur overnight. In this sense, while it is clearly important to pursue energy from alternative and renewable resources and increase conservation and efficiency, any realistic solution to increase our energy security must also focus on increased domestic production of coal, oil, and natural gas.

OCS Role in Our Nation's Energy Portfolio

Today, MMS administers about 7,800 leases and oversees nearly 4,000 facilities on the OCS. The EIA's reports indicate that if the Federal OCS were treated as a separate country, it would rank among the top five oil and gas producing nations in terms of the amount of crude oil and second in natural gas it supplies for annual U.S. consumption. The data shows a trend of increasing oil production from the OCS, which in 2006 produced about 498 million barrels per year, and by 2015 is projected to produce approximately 838 million barrels per year. The EIA also projects OCS natural gas production to increase from 2.7 trillion cubic feet per year in 2006 to 4.04 trillion cubic feet by 2015 and increase to 4.25 trillion cubic feet by 2020. 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. MMS's 2006 resources assessment estimates the Alaska Planning Areas that are proposed for leasing in our 2007 to 2012 5-Year Oil and

Gas Leasing Program to contain undiscovered and technically recoverable resources of approximately 25 billion barrels of oil and 114 trillion cubic feet of natural gas.

As required by law, 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 United States Treasury and adjacent coastal states. For example, in FY 2007, MMS collected \$11.4 billion on behalf of the Federal government in royalties, rents, and bonuses.

The Chukchi Sea Planning Area

The Chukchi Sea is one of 12 OCS Planning Areas off the coast of Alaska. It is one of four Alaska Planning Areas included in the current 2007-2012 5-Year Oil and Gas Leasing Program.

The Chukchi Sea, in the Arctic Ocean, separates Alaska's northwest coast from Russia's northeast coast and has seen minimal oil and gas development activity. Yet, MMS's 2006 OCS National Assessment estimates that the Chukchi Sea Planning Area could hold 15 billion barrels of oil and 76 TCF of natural gas (mean, undiscovered, technically recoverable), thus providing potentially significant future production of oil and gas from Northern Alaska.

Between 1988 and 1991, portions of the current Chukchi Sea Planning Area were involved in four lease sales (Sales 97, 109, 124 and 126); 483 blocks were leased for a total of over \$500 million in high bids. Five wells were drilled between 1989 and 1991, all safely, and all with some oil or gas shows. At the time, although very attractive geologically, companies decided to postpone further exploration of the area due to high costs associated with such activity.

Proposed Chukchi Sea Sale 193

The Chukchi Sea was included in both the 2007-2012 Oil and Gas Leasing Program as well as the current Program for 2002-2007. Both 5-Year Programs were developed under the statutory requirements of the OCS Lands Act, which included preparing comprehensive environmental impact statements. Under those processes, the bureau solicited comment from other Federal and State agencies and the public, and held hearings in the local communities. For both 5-Year Programs, the Governor of Alaska supported holding lease sales in the Chukchi Sea.

Sale 193 was originally scheduled for June 2007, but we delayed the sale until February 2008 to provide sufficient time to complete the environmental analyses, which included an environmental impact statement under the National Environmental Policy Act (NEPA), and consultations with the Fish and Wildlife Service (FWS) and the National Marine Fisheries Service (NMFS) under the Endangered Species Act (ESA), where both agencies issued "no jeopardy" biological opinions. Our analyses also included

coordination with local governments and Federally-recognized tribes and compliance with statutes such as the OCS Lands Act, the Magnuson-Stevens Fishery Conservation and Management Act, and the Coastal Zone Management Act. Through these reviews, we assessed the potential direct, indirect, and cumulative effects of the lease sale on marine mammals, including polar bears, and subsistence activities.

The MMS and the FWS have continued to work closely together, particularly in Alaska, to assure that energy development has little or no negative effect upon wildlife resources. As a result of the careful environmental analysis we prepared, which considered an area of 34 million acres, the Secretary and I decided to increase the size of the coastal buffer, limiting the sale area to under 30 million acres. The sale area now excludes nearshore waters ranging from about 25 to 50 miles from the coast. The near-shore “polynya” through which the bowhead and beluga whales, other marine mammals, and marine birds migrate north in the spring, and in which local communities subsistence hunt, are part of the excluded area.

As part of our comprehensive regulatory program, leases issued from the sale will include stipulations for protection of biological resources, including marine mammals and migratory and other protected birds, and methods to minimize interference with subsistence hunting and other subsistence harvesting activities. The Governor of Alaska concurred with the sale and the State agrees that it is consistent with its Coastal Zone Management (CZM) Plan.

MMS included items specific to polar bears in its “Information to Lessees” (ITL) issued for Sale 193. These items direct lessees to:

- obtain authorization under the Marine Mammal Protection Act (MMPA) from the FWS prior to any commencing operations; and
- coordinate with FWS and local Native communities while planning their oil and gas development activities and before submission of their Oil-Spill Response Plans to ensure potential threats to polar bears are adequately addressed based on the most current knowledge;
- conduct their activities in a way that will limit potential encounters and interaction between lease operations and polar bears.

As noted above, MMS’s decision to conduct this sale was made after consideration of a large amount of information garnered from numerous environmental analyses and studies. Over the last 30 years, MMS has provided nearly \$300 million in funding to study the offshore areas in Alaska, and more studies are planned for the current fiscal year. In fact, MMS has spent almost \$2 million dollars over the past five years in targeted research to further our understanding of polar bear life history, feeding behaviors, use of sea-ice habitat, population and recruitment dynamics, development of new technology for locating and mapping polar bear travels and maternal dens, best practices for operations in polar bear habitats, and monitoring needs. Other MMS studies indirectly help to better understand polar bears by gathering information on animal

species that are food for the bears, oil spill modeling and response capabilities, and changes in sea-ice conditions. These studies complement the research supported by other Federal and State agencies and non-government organizations, and significantly add to the information base on polar bears in the Beaufort and Chukchi Seas.

Overall, MMS is a leading participant and supporter of scientific research relating to the ocean environment. In 2005, MMS also completed a multi-disciplinary literature review of 900 citations of research by numerous scientists specific to the Chukchi Sea. The bureau also held a Chukchi Sea Science Update meeting that included over 20 presentations on Chukchi Sea oceanography, chemistry, marine mammals, fish, marine and coastal birds, and subsistence and cultural resources. Scientists from the University of Alaska, FWS, National Aeronautics and Space Administration (NASA), the United States Geological Survey (USGS), the North Slope Borough, and other Federal and State agencies participated in this Update.

This activity continued in 2006, when MMS sponsored a meeting attended by over 100 scientists and stakeholders geared to develop a long-term research plan for the Chukchi Sea. As a result, a suite of research was developed to study marine mammals, sediments, birds, fish, subsistence, and communities, with new studies starting in 2007 and 2008. This research will help monitor effects from any future exploration or development activities. In addition, MMS has actively partnered with several other Federal agencies in recent years through the National Oceanographic Partnership Program to sponsor highly relevant arctic research on numerous marine mammal and ocean circulation topics which will contribute to our understanding of the Chukchi Sea environment.

MMS's Continuing Role After The Lease Sale

MMS's job, however, does not stop with the lease sale. In fact, in some very important ways it is just beginning. In accordance with the OCS Lands Act, before any drilling begins, a company must provide a detailed exploration plan explaining how its operations will be safely conducted and how any potential environmental issues will be mitigated. In particular, MMS regulations require specific information detailing the mitigation and monitoring programs for protected species, which include all marine mammals and species listed as threatened or endangered under the ESA.

Companies also must obtain permits from other agencies, such as the Environmental Protection Agency (EPA), and ensure their plans are consistent with the Alaska Coastal Zone Management Program. MMS then completes a technical and environmental review of the plan, provides copies of the plan to FWS and NMFS for review, and consults with FWS and NMFS under the ESA, as necessary. If a company pursues a discovery to production, MMS again undertakes a thorough technical and environmental review of the proposed activities, including ESA Section 7 review with FWS and NMFS, as necessary.

There are many types of marine mammals living in Alaskan waters, and the industry and Federal and State government agencies have a long history of operating safely in inhabited areas. All of the 30 exploration wells drilled in the Beaufort Sea have been

drilled safely on the OCS and a few hundred exploration and production wells have been drilled in State waters and onshore along the coast.

The MMS also has a robust regulatory system designed to prevent accidents and oil spills from occurring. This includes redundant well control equipment, emergency plans for ice conditions, production safety systems, and much more. In Alaska, an MMS inspector is onboard drilling rigs 24 hours a day, 7 days a week during critical drilling operations. For the nearly 90 wells drilled offshore Alaska since 1975, there have been no crude oil spills and only minimal amounts of oil products used in the development and production operations. However, because spills are always a possibility, we carry out an analysis of the potential in our reviews and require oil spill contingency plans.

Substantial clean-up technology exists for the Arctic region. Before MMS will approve operations in Alaska, we require the development and demonstration of a wide range of response tactics, including mechanical and non-mechanical measures that work in sea ice and subfreezing temperatures found in the Arctic. An operator must demonstrate sufficient personnel to mount a 24 hour per day response, with protections for sensitive sites and animals in the area. For example, MMS requires that clean up plans address areas where polar bears may congregate.

The MMS is a major sponsor of projects directly related to improving Arctic oil spill response. In October 2007, MMS cosponsored the International Oil in Ice workshop. Over 270 participants from 7 nations gathered to discuss available and future technologies to detect, contain, and clean up oil spills in the Arctic region. Over the past six years, MMS has funded and successfully conducted 48 research and development projects directly related to improving Arctic oil spill response and to providing regulators with related scientific data. Ongoing research includes response technologies for remote sensing and surveillance, mechanical response, and in-situ burning. While more work remains to be done, this research has contributed to the development of effective ways to deal with spilled oil in Arctic conditions.

As noted above, if the polar bear is listed as threatened, MMS will, along with all Federal agencies, comply with section 7 of the ESA. In the interim, MMS will continue to work closely with the FWS to review and identify the specific oil and gas activities that could affect polar bears and identify mitigation and monitoring measures that seek to reduce the potential for impacts to occur.

Conclusion

Over the past 30 years, with existing regulatory programs in place, oil and gas activity has operated safely and compatibly with the marine life in the Alaska OCS, including polar bears. Existing laws provide the flexibility to ensure the proper level of mitigation if conditions change. The MMS has been, and remains, committed to ensuring that offshore oil and gas activities not only provide needed energy for our nation, but are also carried out in a way that ensures the continued protection of our environment for future generations. We believe these two goals are compatible.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you may have.