
DRILLING FOR TRUTH AND COMING UP EMPTY

EXECUTIVE SUMMARY

AN ANALYSIS OF THE MAJORITY STAFF ENERGY REPORT

COMPILED BY MINORITY STAFF OF THE COMMITTEE ON NATURAL RESOURCES

“THIS REPORT HAS NOT BEEN OFFICIALLY ADOPTED BY THE COMMITTEE ON NATURAL RESOURCES AND MAY NOT THEREFORE NECESSARILY REFLECT THE VIEWS OF ITS MEMBERS.”

SUMMARY

In June of this year the Majority Staff of the Committee on Natural Resources issued a report titled “The Truth about America’s Energy: Big Oil Stockpiles Supplies and Pockets Profits.” The report has provided the basic talking points on energy issues for the Majority since its release.

The report includes unsubstantiated extrapolations regarding the oil and gas resources contained within the non-producing acres under lease. It also illustrates a lack of knowledge about the onshore and offshore leasing process, the costs to the lessee to acquire the lease or leases, the nature of oil and gas deposits, and the time required to explore, and if a discovery is made, develop a lease.

Ultimately the Majority’s document misleads Members of Congress and the American public. In this analysis, the Minority staff provides context for questions and issues raised in the Majority report regarding the Federal onshore and offshore oil and gas leasing program. This will help Americans understand the complexity of the issue and more importantly explain exactly why the U.S. is 60% dependent on foreign sources of oil.

Claim # 1:

“While the oil industry and some Members of Congress argue that opening more federal lands and waters would lead to lower gasoline prices, the facts prove otherwise. The fact is that the Nation simply cannot drill its way to lower prices at the pump. Other options, from greater energy efficiencies to the development of alternative fuels, are essential to reducing dependency on petroleum fuels and lowering fuel costs.”

FACTUAL CRITIQUE: No matter how hard they try, the Majority cannot suspend the law of supply and demand.

During the first quarter of 2008 -- **70%** of the cost of a gallon of gasoline was the price refiners paid for crude oil. By May it had jumped to **75%**.¹ The law of supply and demand continues to work. Demand for petroleum has gone up, constraining the available supply. This creates a corresponding increase in price for crude oil and the products made from it, including gasoline. Worldwide demand is largely driven by the industrialization and modernization taking place in China and India. Their economic growth and industrialization has put significant upward pressure on prices for all commodities since 2004.

For more details, refer to pages 5-7 of the Minority Report.

¹ <http://tonto.eia.doe.gov/oog/info/gdu/gaspump.html>

Claim # 2:

Increased Domestic Drilling Activity Has Not Led To Lower Gasoline Prices: “Since the 1990s, the federal government has consistently encouraged the development of its oil and gas resources and the amount of drilling on federal lands has steadily increased during this time. The number of drilling permits has exploded in recent years, going from 3,802 five years ago to 7,561 in 2007.

FACTUAL CRITIQUE: Onshore oil and gas acres under lease during the 1990s to the present are less than one third the acres under lease during the early 1980s and offshore acres under lease dropped dramatically after the annual Congressional spending moratorium for leasing activities on the Outer Continental Shelf (OCS) was enacted in 1982. The decline in U.S. production is coincident with the decrease in the total acres available for oil and gas leasing. The average number of onshore acres leased between 1993 through the present is lower than the preceding 12 years.

For more details, refer to pages 10-11 of the Minority Report.

Claim # 3:

“Between 1999 and 2007, the number of drilling permits issued for development of public lands increased by more than 361%, yet gasoline prices have also risen dramatically contradicting the argument that more drilling means lower gasoline prices. There is simply no correlation between the two.”

FACTUAL CRITIQUE: To understand the real answer, you need to identify the resources, its location and how it will be used.

WHAT -- Crude oil is the feed stock for our transportation fuels, including gasoline, and is also used to make plastics and other products. Natural gas is used to generate electricity (approximately 20%), for home energy use and as feed stock for fertilizer and other chemicals.

WHERE -- Some fields only produce natural gas while others primarily produce oil. For example of the 8 major producing basins in the Intermountain-West Federal land States, five are primarily natural gas basins and 3 are primarily oil producing basins.

While it is true that many applications for permits to drill (APDs) were issued in recent years, most were in the Intermountain-West. However, numerous leases in two of the onshore oil producing basins in the Intermountain-West are in suspended status awaiting a final Record of Decision (ROD) under the National Environmental Policy Act on several Resource Management Plan (RMPs) revisions. The revisions to the RMPs delaying evaluation of these leases were required by court decisions resulting from litigation brought by environmental groups opposed to oil and gas development on Federal lands. This litigation has resulted in delayed development of an estimated **5.2 TCF of gas** and **334 million barrels of oil**, enough energy to heat 72.9 million homes and power 24.5 million cars.

Most Importantly, these drilling permits were primarily issued for natural gas. Natural gas is not used for the production of gasoline and therefore should not be expected to impact the price Americans pay for gasoline or other transportation fuels used by business and industry or the military.

For more details, refer to page 13 of the Minority Report.

Claim # 4:

Energy Companies Not Using Federal Lands Already Open to Energy Development -- *“Even if increased domestic drilling activity could affect the price of gasoline, there is yet no justification to open additional federal lands because oil and gas companies have shown that they cannot keep pace with the rate of drilling permits that the federal government is handing out.*

In the last four years, the Bureau of Land Management has issued 28,776 permits to drill on public land; yet, in that same time, 18,954 wells were actually drilled. That means that companies have stockpiled nearly 10,000 extra permits to drill that they are not using to increase domestic production.”

FACTUAL CRITIQUE: Until 2007, APDs had a one to two year shelf life before they expired. Any APDs that were issued in 2004 and 2005 and were not utilized have expired and therefore cannot be stockpiled. Those that were issued in 2006 will expire this year. Anyone who was unable to use an APD before it expired will have to reapply and wait for the Bureau of Land Management (BLM) approval before proceeding with drilling. So the life of an APD is limited and oil prices are high; there is no incentive or ability to “stockpile” APDs.

Today the shelf life of an APD is two to four years. This amount of time is necessary to deal with lease stipulations that limit when an area can be drilled primarily to accommodate wildlife mating, nesting, and migration periods.

For more details, refer to page 16 of the Minority Report.

Claim # 5:

“Further, despite the federal government’s willingness to make public lands and waters available to energy developers, of the 47.5 million acres of on-shore federal lands that are currently being leased by oil and gas companies, only about 13 million acres are actually “in production”, or producing oil and gas. Similar trends are evident offshore as well, where only 10.5 million of the 44 million leased acres are currently producing oil or gas.

Combined, oil and gas companies hold leases to nearly 68 million acres of federal land and waters that they are not producing oil and gas. Oil and gas companies would not buy leases to this land without believing oil and gas can be produced there, yet these same companies are not producing oil or gas from these areas already under their control.”

FACTUAL CRITIQUE: First, all of the non-producing oil and gas leases are in some stage of exploration and development. If a lease is not producing or does not contain commercial quantities of oil or gas at the end of the initial term of a lease the lease expires.² The Bureau of Land Management (BLM) or the Minerals Management Service (MMS) can include the expired lease area in subsequent lease sales; often an area will be leased several times before a deposit is found or the technology is developed to recover a known resource making the lease commercially viable.

There is no guarantee that a Federal oil and gas lease contains either oil or gas. The company awarded the lease has to evaluate the area first. It must conduct seismic and other surveys to assess the potential for oil and gas being present in the lease and then drill to determine if there is actually any oil or gas within the lease area. All of

² http://www.blm.gov/wo/st/en/prog/energy/oil_and_gas/questions_and_answers.html

this takes time, requires compliance with environmental laws and regulations and step-by-step approval from the BLM to drill an exploration well or the development and production wells needed to bring a field into production. Often at the end of the day there is no oil or gas found. **For example between 2002 and 2007 47% of all the exploration wells and 8% of the development wells drilled were dry!**³

For more details, refer to page 19 of the Minority Report.

Claim # 6:

"If we extrapolate from today's production rates on federal land and waters, we can estimate that the 68 million acres of leased but currently inactive federal land and waters could produce an additional 4.8 million barrels of oil and 44.7 billion cubic feet of natural gas each day."

"That would nearly double total U.S. oil production, and increase natural gas production by 75%. It would also cut U.S. oil imports by more than a third, and be more than six times the estimated peak production from the Arctic National Wildlife Refuge (ANWR)."

FACTUAL CRITIQUE: It appears the "extrapolation" was computed without regard for the geology of the areas under lease or technological considerations of the various types of deposits that may underlie a lease. This claim was promptly refuted by the American Association of Petroleum Geologists (Appendix A of the Report) and the Department of the Interior (Appendix B of the Report).

For more details, refer to page 21 of the Minority Report.

Claim # 7:

"Vast Majority of Federal Oil and Gas Resources Already Available for Development: Proponents of opening additional lands to oil and gas leasing assert that vast quantities of oil and gas are closed to energy development. In fact, according to the Minerals Management Service, of all the oil and gas believed to exist on the Outer Continental Shelf, 82% of the natural gas and 79% of the oil is located in areas that are currently open for leasing."

FACTUAL CRITIQUE: The figures cited in the Majority's report are from the 2006 the Minerals Management Service (MMS) "Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources" and reiterated in testimony provided by MMS during an oversight hearing.

Not included in the Majority's report is the disclaimer MMS included in its testimony or any reference to the repeated caveats found throughout the above mentioned report: ***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.***⁽⁶⁾

MMS speaks from experience as resource assessments for areas where modern data and information are utilized prove to be very conservative once drilling takes place. For example, a 1975 the U.S. Geological Survey (USGS) resource assessment for the Gulf of Mexico estimated the undiscovered resources to be 6.25

³ http://tonto.eia.doe.gov/dnav/pet/pet_crd_wellend_s1_a.htm

billion barrels of oil and 50 Trillion Cubic Feet (Tcf). The most recent assessment numbers for undiscovered resources in the Gulf are 44.92 billion barrels of oil (465% increase over 1975) and 232.54 TCF of natural gas (719% increase over 1975).⁴

For more details, refer to page 22 of the Minority Report.

Claim # 8:

Alaska: *“Proponents of drilling in Alaska are most often focused on a 1.5 million acre area in the 19.2 million acre Arctic National Wildlife Refuge (ANWR). Established in 1960 and expanded in 1980, ANWR includes a 1.5 million acre area of the coastal plain known as the “1002 area” which requires Congressional authorization before oil drilling may proceed there.”*

FACTUAL CRITIQUE: Drilling the 1002 area of the Alaska National Wildlife Refuge (ANWR) that was set aside for the purpose of energy development is a no-brainer. ANWR is estimated to contain 10.4 billion barrels of economically recoverable oil in a 1.5 million acre area while the National Petroleum Reserve-Alaska (NPR-A) contains 10.6 billion barrels of economically recoverable oil spread out over 23 million square miles. It’s kind of like comparing the Hope Diamond to a string of cultured pearls.

For more details, refer to page 25 of the Minority Report.

Claim # 9:

“However, in addition to ANWR, there are another nearly 91 million acres currently open to leasing in the Arctic region of Alaska, including onshore and offshore lands. Oil and gas companies have leased only 11.8 million of the 91 million acres.”

“Within the National Petroleum Reserve-Alaska (NPR-A), oil companies have leased 3 million acres of 22.6 million acres available to lease. No production has occurred on any of those lands and industry has drilled only 25 exploratory wells there since 2000.”

FACTUAL CRITIQUE: MMS held three lease sales in the Beaufort Sea between 2003 and 2007; 261 leases have been issued; however, evaluation of the leases has been stalled by environmental groups who sued to delay the lease holders from conducting seismic surveys and exploration drilling on these leases.

Litigation has plagued BLM’s leasing program for the NPR-A as well, delaying lease sales and limiting areas within the NPR-A that can be leased. In addition to litigation, other factors hamper oil and gas exploration and development in Alaska. These include a short drilling window which is limited to the winter months to minimize environmental impacts to the terrain, permitting delays and lack of infrastructure such as pipelines.

For more details, refer to pages 26-27 of the Minority Report.

⁴ <http://www.mms.gov/revdiv/PDFs/FinalInvRptToCongress050106.pdf>

Claim # 10:

“The Energy Information Administration (EIA) estimates that it will require 8 to 10 years after opening ANWR before oil is produced from any new leases. Furthermore, it would be 20 years after opening ANWR before oil production reached its peak of only 780,000 barrels per day. Production at that level would start to drop within a short time.”

FACTUAL CRITIQUE: Without limitations on frivolous litigation and an expedited permitting process it could take 8 to 10 years or longer to bring ANWR into production. However, Congress has the ability to address the permitting and litigation hurdles faced by industry. For example, the “The Trans-Alaska Pipeline Authorization Act of 1973” limited opportunities for litigation and established an office to coordinate environmental permitting for the pipeline.⁵ Construction of the 800 mile oil pipeline took 3.5 years.⁶ The arguments of environmentalists who sued to stop construction of the pipeline have turned out to be without merit.

For more details, refer to page 27 of the Minority Report.

Claim # 11:

“According to the EIA, opening ANWR would reduce U.S. crude oil imports, but not until 2022-2026 and only by a few percentage points. Further, it would not significantly increase total world oil production, nor would it significantly affect world oil prices.”

FACTUAL CRITIQUE: As stated above, Congress has the authority (if not the will) to limit the opportunities for environmental organizations to file frivolous lawsuits challenging leasing, exploration activities, development and construction of infrastructure required to develop America’s oil and gas resources contained in the 1002 area of ANWR.

Conventional world oil reserves are at an all-time high at 1,238 billion barrels of oil. World oil production is flat. Consumption is rising.⁷ It makes sense for the United States to develop more of its own energy resources making the country more self-reliant and less dependent on the mercy of other nationalized oil producers whose self interest is best served by high oil and natural gas prices.

For more details, refer to page 27 of the Minority Report.

CONCLUSION

“Drill here, drill now” has taken hold with the American people. They understand instinctively that more drilling yields more resources. And that if the drilling takes place on American soil then Americans have better control over the prices they pay for gasoline and other forms of energy. Americans know the U.S. is 60% dependent on foreign sources of oil because we have restricted access to the Federal mineral estate and have allowed litigation

⁵ http://www.law.cornell.edu/uscode/43/usc_sec_43_00001652----000-.html

⁶ <http://www.alyeska-pipe.com/Default.asp>

⁷ <http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622> and http://energy.usgs.gov/flash/CARA_slideshow.swf

by radical environmental groups and a cumbersome permitting process to unnecessarily delay the exploration and development of Federal oil and gas leases.

America has an enormous amount of energy resources if only the people had access to them. Resource assessments published since 2006 indicate that the U.S. has 147 billion barrels of oil and 872 TCF of natural gas within the Federal mineral estate. These resource assessments only evaluated our conventional oil and gas resources and not the Nation's unconventional energy resources such as methane gas hydrates, oil shale, tar sands, or heavy oil.

It's time for Congress to take the next step and let American ingenuity and tenacity loose to develop the Nation's energy resources. After all, it was Americans who birthed and built the oil and gas industry which has benefited Nations around the world, improved our standard of living and helped us become the most prosperous Nation on Earth.