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Energy & Power Subcommittee
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Mr. Chairman and Members of the Committee:

As the Executive Director of the Shallow Water Energy Security Coalition ("Coalition"), and the Senior Vice President, General Counsel and Chief Compliance Officer for Hercules Offshore Inc. ("Hercules"), I appreciate the opportunity you have provided today to address the devastating economic impact of the Obama Administration's reckless offshore oil and gas drilling policies. Our Coalition comprises a group of companies that explore, develop and drill for natural gas and oil in the shallow waters of the Gulf of Mexico (see attached list of Coalition members).

Mr. Chairman, the economic impact of the Obama Administration's offshore oil and gas policies are direct, severe and long-lasting. Over 400,000 jobs across the Gulf Coast alone are tied to the offshore energy industry. Unfortunately, these jobs are at risk. They are at risk for one simple reason: this Administration wants to dismantle our industry, rig by rig, company by company, job by job. At a time when this Nation's economy is struggling to recover from one of the deepest recessions of our lifetime, and when the unemployment rate has been unacceptably high, this Administration has knowingly and irresponsibly put policies in place that have undermined thousands of good-paying jobs in the offshore oil and gas industry. Contrary to the rule of law and the fundamental principals of our country's form of government, the Administration has repeatedly ignored Federal court orders that struck down the Administration's job-killing policies and attempts to create new law by executive fiat. Members of this Committee have joined with numerous other Members of Congress in a bipartisan effort to implore this Administration to change course. Even former President Bill Clinton said last week that the Obama Administration's offshore drilling policies were "ridiculous". And, yet, this Administration persists on what appears to be an ideologically-driven mission to raise energy prices, and to eliminate offshore oil and gas production and the many thousands of jobs that depend on it.

Feeling It at the Pump

This Obama Administration's fixation on doing harm to the oil and gas sector is now coming home to roost. The ongoing turmoil in North Africa and the Middle East and the lack of domestic oil and gas production have combined to cause dramatic spikes in the price of oil. The price at the pump is now approaching $4.00 per gallon. At gas stations all across America, millions of our citizens are now feeling the impact of this Administration's policies. The prospects for a real and lasting economic recovery are seriously threatened by higher energy prices for every business and consumer. The solution is not to tap the Strategic Petroleum Reserve. The solution is to immediately resume domestic oil and gas production in the Gulf of Mexico.

Some fail to grasp the direct relationship between current drilling policy and current gasoline prices. We believe this failure reflects a fundamental misunderstanding of how gasoline prices come about. The component parts of gasoline – which include products derived from natural gas and crude petroleum - and gasoline itself - are in whole or in part traded on a spot market that sets its prices based on a number of factors. Uncertainties in North Africa and the Middle East, and the unexpectedly rapid economic recovery in China and India, are both major drivers, to be sure. However, the spot market is also influenced by factors best described as "anxiety" over the role of government in securing and encouraging domestic production. If the market believes that the Federal government does not stand ready to remove obstacles to production, or make matters even worse by creating more obstacles, the ability of the market to reduce gasoline prices even in the near term is greatly hampered. In short, the rising price at the pump is the market's indictment of the Administrations destructive oil and gas policies.

The Moratorium Continues

Mr. Chairman, immediately after the Macondo blowout last April, shallow water drilling operations were halted for 30 days by a drilling moratorium issued by Secretary of the Interior, Ken Salazar. Yet, after the moratorium was supposedly "lifted", the Department of the Interior ("DOI") refused to resume the prompt and regular issuance of shallow-water drilling permits. A *de facto* moratorium was put in place, effectively strangling oil and gas operations in the Gulf of Mexico for months. In fact, as of today, DOI has issued only a handful of permits for the drilling of new shallow water wells in the 11 months since the Macondo tragedy. Without those permits, our Coalition members cannot drill for new oil and gas and their employees cannot go back to work. Without those permits, the economic devastation across the Gulf Coast and in other states that support our industry will only get worse. Without those permits, our industry will cease to exist.

Administration Policies Drive a Driller into Bankruptcy: The Case of Seahawk

Mr. Chairman, this is no abstraction to me. The extreme policies of this Administration have already claimed one of our Coalition members and I fear that others might follow. Just a few weeks ago, on February 12th, the country's second largest shallow-water drilling company, Seahawk Drilling, Inc. ("Seahawk"), declared bankruptcy, eliminating 1,000 high-paying jobs it provided to men and women all across the Gulf Coast. I personally know the pain this caused because I was there. On February 11th, I walked out of my office in Houston and across the street to Seahawk's office to participate in an outcome effectively caused by the Obama Administration. Our company was agreeing to purchase the 20 shallow water rigs owned by Seahawk and pay off the funding Seahawk needed to wind itself down and go out of business.

It was already late in the day on that Friday when I arrived at Seahawk's offices. Many of the several hundred Seahawk employees were still in the office and had been told that an employee meeting would be held before they departed for the weekend. A group of 6 or 7 pensive employees were gathered at the front desk when I entered. As I walked through the halls, employees got up from their desks and came to their doors, eyeing me as I went towards the conference room. I had the opportunity to look into their eyes and see the apprehension on their faces over what they certainly knew must be coming. Once inside the conference room, I executed the required documents, and Seahawk was no more. As I left, I put my hand on a Seahawk executive's shoulder, and saw in his eyes that he was fighting back the emotions of the day. He paused, took a deep breath, and walked out of the conference room to inform the large gathering of Seahawk employees that the company was bankrupt.

Seahawk had become a victim of the slowdown in shallow water permitting orchestrated by this Administration. Seahawk had nothing to do with the Macondo blowout. The shallow water company did not even operate in deep water. But, it was destroyed by the misguided and heartless policies of this Administration. Mr. Chairman, the Seahawk bankruptcy was completely avoidable. With all of its rigs based in the Gulf of Mexico, Seahawk's very existence was dependent upon the regular issuance of drilling permits from DOI and its agency, the Bureau of Ocean Energy Management, Regulation, and Enforcement ("BOEM"). By perpetuating its *de facto* drilling moratorium, DOI and this Administration essentially put Seahawk out of business and its employees out of work. Hercules will do everything we can to save as many men and women from the personal indignity of the unemployment line. But we can't save everyone.

Final Permit Actions Continue to Be Grindingly Slow

Mr. Chairman, this time last year, the Shallow Water Energy Security Coalition did not even exist. But after the Macondo tragedy, our Coalition was formed to take all necessary steps to work with the Administration, Congress and others to address the concerns raised by that incident and to take whatever steps are necessary to get our industry back to work. The Coalition and its members have tried to work closely with the Administration to address safety and environmental concerns about offshore drilling operations, but have made little progress. The *de facto* drilling moratorium continues to stifle our industry and the associated national and economic security needs of our country.

Mr. Chairman, the Obama Administration, despite it many public assertions to the contrary, has worked tirelessly to shut down offshore oil and gas development activities in the United States. President Obama, as recently as last week, disingenuously expressed his support for the "need to continue to boost domestic production of oil and gas", and said that he is "encouraging offshore exploration and production." But, the evidence plainly shows otherwise. Only two deepwater drilling permits have been issued in the past 11 months, and even then, those permits were for the purpose of recommencing work at previously-approved drilling sites. For shallow water activities, only 37 new drilling permits have been approved by BOEM during the same time period, when the normal historical rate had been approximately 10-to-15 or more shallow water permits per month. This constitutes about an 85% reduction in the rate of monthly permit actions. With this significant drop in permit approvals, it is no wonder that Seahawk was forced into bankruptcy. I fear that other companies that depend upon a vibrant offshore energy industry may be close behind as they struggle on a day-by-day basis to stay afloat.

With newly-imposed, overly burdensome and confusing regulatory requirements mandated by BOEM, offshore development activity has ground to a virtual halt despite the exemplary safety record of the oil and gas industry. Since the beginning of offshore oil and gas development in the Gulf of Mexico, more than 46,000 wells have been safely drilled with only a total of approximately 15 barrels of oil spilled in the 15 years prior to April 2010 in well control events. Additionally, Bureau of Labor Statistics data confirms that the oil and gas industry has a strong record of safety – a record much safer than many other capital intensive manufacturing industries and most comparable to office jobs. Despite this safety record, the industry nevertheless worked closely with BOEM in a good faith effort to further improve safety measures and to restore drilling operations in the Gulf of Mexico. That effort was to no avail. I can assure you that the industry fully supports safety, but the governmental bureaucracy and delays imposed by the Administration continue to strangle offshore drilling.

Additional actions by the Administration to cancel offshore lease sales are making the domestic production situation even worse. A western Gulf of Mexico lease sale previously scheduled for August 2010 had already been cancelled, and expectations are that lease sales planned for March and August of this year may be postponed or cancelled as well. Should that occur, it will be the first year in over 45 years that the Federal government has not sold offshore leases for oil and gas production.

As Rigs Leave the Gulf or Are Idled, Jobs and Revenue Go With Them

The impact of the Obama Administration will be long-standing. Experienced personnel are now being relocated and drilling equipment is being redeployed or abandoned. At the time the moratorium was first imposed in May 2010, there were 25 floating rigs and 39 shallow water jackup rigs actively working on drilling operations in the Gulf of Mexico. By January of this year, only 8 floating rigs and 27 shallow water rigs were actively employed in Gulf drilling activity, a significant and precipitous reduction in domestic employment and energy development. Consequently, businesses are being forced to look for work outside of the United States, leading to a departure from the Gulf of Mexico of drilling rigs and highly-trained and experienced offshore workers. The offshore drilling business is a global marketplace. Since May 2010, at least 12 offshore rigs have departed the Gulf of Mexico – seven deepwater floating rigs and five shallow water jackup rigs – with at least four additional rigs currently under active consideration for deployment in other parts of the world. Once this equipment leaves the Gulf, it will be years, if ever, before the rigs and other vital equipment become available again for use in Gulf of Mexico. More importantly, our country will lose the highly-trained offshore personnel whose skills and experience are required for safe and secure offshore oil and gas development operations. In short, we are suffering from a significant and avoidable loss in domestic production capability, both for present and future generations of Americans. In recent months, other sophisticated and environmentally informed governments, such as the United Kingdom, Norway and Australia, have carefully examined the continued use of the same type of drilling equipment that we use in the Gulf of Mexico. Each of those countries concluded that the industry can drill safely and that they are better off securing their own energy and to reap for themselves the significant economic gains of a healthy oil and gas industry.

Mr. Chairman, hundreds of thousands of jobs in our industry are at stake. Each one of our offshore rigs operates essentially as a "floating factory", much like the landside factories that provide millions of jobs throughout America. According to a September 2010 study conducted by the Maguire Energy Institute at the Southern Methodist University School of Business, each shallow offshore rig employs approximately 100 workers, with 400 additional workers that directly or indirectly support the offshore drill rig operations. Those additional workers are employed by American shipyards, offshore supply boat companies, equipment manufacturers, food suppliers, and a wide range of other service companies. In other words, it is not just the thousands of hardworking men and women directly employed in the oil and gas industry who rely on offshore operations, but it is also the welders, fabricators, equipment manufacturers, longshoremen, helicopter pilots, truck drivers, restaurant owners, supply boat captains and scores of others all across the Nation who support offshore energy exploration. The Administration's actions are shutting down these floating factories and the employment opportunities that go with them.

When you widen this analysis to all direct impacts at risk in the Gulf, as the respected consulting firm PFC Energy ("PFC") did just last month, the numbers are staggering. PFC estimates the direct annual economic impact of oil and gas exploration and production in the Gulf of Mexico at $43 billion. Other sources show that the entire oil and gas sector writ large is responsible for over 2 million direct jobs and over 7 million indirect jobs in the United States.

Additionally, significant Federal, state and local tax revenues will dramatically decline as a result of the Administration's *de facto* drilling moratorium. In Louisiana alone, offshore energy exploration and production accounts for 60 percent of the tax base in some parishes. Of course, these revenue shortfalls come at the very time most states and localities are strapped for revenues that fund essential services like schools, hospitals, and outreach for the elderly and those living in poverty.

As for the Federal government, we need not remind the Committee that the national debt is staggering. After income tax collection, the next highest source of revenue to the Federal government comes from rent, royalty payments, and bonus payments related to offshore oil and gas development. Since 1982, almost $200 billion has flowed to federal coffers from these sources. We can ill-afford to sideline these revenues based on the poorly conceived permitting policy in the Gulf.

We all know that our industry has a significant economic impact on the Gulf Coast. But, many do not realize that the shallow water industry alone also has a huge economic benefit elsewhere in the country. A recent survey of just a handful of oil and gas companies found that the industry expended approximately $1.8 billion in states outside of Texas and Louisiana between 2008-and-2010. Of that amount, approximately $1.3 billion was spent in seven states -- Illinois, Pennsylvania, Wisconsin, New York, California, Oklahoma and Alabama. Of those states, the President's home state of Illinois was the largest beneficiary, with approximately $376 million spent in that state alone by our industry over the three-year period of the study. In fact, every one of our shallow water rigs has multiple engines on board, most of which were manufactured by Caterpillar in Illinois. We buy each of our several thousand employees two pairs of steel toed boots each year – made in Redwing, Minnesota. In short, this is a national economic calamity for scores of seemingly unrelated industries dependent on the oil and gas industry.

Energy Security Is National Security

There is a direct relationship between our ability to effectively develop resources in the Gulf and the energy security of the United States. PFC wrote in February that, "The Gulf of Mexico is one of the world's great hydrocarbon basins and a major contributor to US energy security...Optimal development requires constant activity, new capital investment and the participation of a set of large and small companies with different capabilities and strategies." Oil from the Gulf displaces oil from less secure foreign sources of supply. Gas from the Gulf does so too, and also forms part of the resource base that may displace some conventional motor fuels in the future – either in clean-burning natural gas vehicles or as a clean power source to generate electricity for future generations of American cars.

But energy security is national security. The recent problems in North Africa and the Middle East should remind us all how foreign dependency distorts policy priorities. Dr. Ariel Cohen of the Heritage Foundation's international studies program testified before Congress that "dependence of the U.S. [on foreign sources of supply] can have dire consequences for the economic well-being of the United States, our national security, and the American way of life."

Current Administration policy simply is not addressing the major security threat. Despite major and growing unrest in North Africa and the Middle East, our policy in the Gulf pushes us further in the direction of dependence on foreign sources at a cost to our economy of some $1 billion a day in the purchase of foreign oil. We rather produce in their Gulf rather than our Gulf. Indeed, major competitors whose strategic interests frequently differ from our own, such as China, understand the United States resource base even when we do not. That is why China is seeking to purchase coal from West Coast ports, buying up oil sands bitumen in Canada otherwise destined for United States markets, and has even purchased rights over secure natural gas fields in a 800,000 acre swath of land from the Mexican border to San Antonio and from Wyoming and Colorado to Nebraska and Kansas.

We simply must reverse course, and it begins in the Gulf.

Conclusion: Put the Gulf Back to Work

Despite the serious impacts of the *de facto* moratorium on shallow and deepwater drilling, the Administration still continues to deny the reality of the adverse consequences of its policies. Secretary Salazar asserted recently that Gulf of Mexico “production has remained at an all time high and we expect that it will continue as we bring new production online.” Even the President in his press conference last week repeated the same unsubstantiated and misleading claim. Nothing could be further from the truth. Data from the Administration’s U.S. Energy Information Administration confirms that production in the Gulf has declined by nearly 300,000 barrels per day since April 2010 and that domestic oil production will fall by a full 13% in 2011. As a Nation, we need to reverse that decline quickly in order to reclaim control of our economic destiny and protect our national security.

The essence of our law and policy in the Gulf of Mexico is to balance the development of oil and gas resources with reasonable environmental considerations. Section 1332 of the Outer Continental Shelf Lands Act makes clear that the Gulf and other parts of the Outer Continental Shelf are to be considered "a vital national resource reserve held by the Federal Government for the public, which should be made available for expeditious and orderly development, subject to environmental safeguards". While the Administration has clearly taken its environmental mission seriously, and while the structure of the regulatory agency has now been reformed, the Administration has ignored utterly its primary obligation under the law – the expeditious and orderly development of oil and gas. At best, it has been slow and somewhat chaotic. It is well past time for the federal government to take its statutory obligations seriously, and to put the Gulf back to work.

The real world consequences of its extreme *de facto* moratorium are now clear:

- The Administration has ignored multiple Federal court orders and is acting as if it is above the law.
- Thousands of jobs are being lost in an already weakened economy.
- A self-inflicted threat has been created to our national and economic security at a time when foreign oil supplies are less than dependable.
- The export of U.S. jobs and equipment will adversely affect tax revenues to the Federal and state governments, most of which are already facing fiscal difficulties.

Mr. Chairman, offshore exploration provides affordable energy for all Americans and supports jobs in every corner of America. We must not let this industry die. We must not let this Administration succeed in its efforts to dismantle this industry.

Mr. Chairman, I want to thank you and your Committee for the recognition that Gulf of Mexico oil and gas supplies are critical to our national and economic security, and for your willingness to use all options at your disposal to compel this Administration to reverse its dangerous energy policies. We just want to go back to work doing what we do best – safely and responsibly producing oil and gas for the American people.

Thank you for allowing me to appear before you today.

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Membership

Shallow Water Energy Security Coalition

Apache Corporation

Arena Offshore

Chevron

Delta Towing

Dynamic Offshore Resources

Energy XXI

Ensco

Hall-Houston Exploration

Helis Oil and Gas

Hercules Offshore

Phoenix Exploration

Rowan Companies

W&T Offshore

Walter Oil & Gas