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Secretary of Natural Resources
Commonwealth of Virginia
Testimony on
“State Perspectives on Offshore Revenue Sharing”
before the
U. S. House Committee on Natural Resources
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Good morning Mr. Chairman and members of the Committee. I am Doug Domenech, Secretary of Natural Resources for the Commonwealth of Virginia. In my Secretariat, I oversee six state agencies; the Department of Environmental Quality, the Department of Conservation and Recreation, the Virginia Marine Resources Commission, the Department of Historic Resources, the Virginia Museum of Natural History, and the Department of Game and Inland Fisheries. In addition, my Secretariat works closely with the Department of Mines, Minerals and Energy located within the Secretariat of Commerce and Trade to implement the Commonwealth’s energy policy, and my Deputy, Maureen Matsen, serves as the Governor’s Senior Energy Advisor.

Thank you for inviting Virginia to share our thoughts on the importance of revenue sharing as a critical part of the development of offshore oil and gas resources.

Virginia Governor Bob McDonnell has been clear from the day that he took office in January 2010 that his goal is to make Virginia the energy capital of the East Coast. We have been hard at work expanding opportunities for both conventional and renewable energy development, on-shore and offshore, as part of an “all-of-the-above” strategy. It is our intention to lead the way to reduce our nation’s dependence of foreign sources of oil through new and innovative efforts to reduce the Commonwealth’s consumption of gasoline and expand alternative fuel markets, and by being the first state on the Atlantic to explore and develop offshore resources.

As part of this strategy, the Governor has pushed hard for access to oil and gas resources off the Virginia coast. We enjoy the bi-partisan support of our General Assembly and our Congressional delegation in the United States Senate – Senators Warner and Webb – and a majority of Virginia’s delegation in the House of Representatives in our effort.

Immediately after his election, the Governor expressed his desire to both Interior Secretary Salazar and President Obama that the Administration proceed with the previously scheduled Outer Continental Shelf (OCS) Lease Sale 220 off Virginia, and we were thrilled when, in March of last year, the President announced Lease Sale 220 would proceed.

Unfortunately, on April 20, 2010 the Deepwater Horizon tragedy occurred and on May 7, 2010 the Interior Department indefinitely postponed environmental work for Lease Sale 220.

Then on December 1, 2010, Secretary Salazar announced that scoping for the next 5-Year leasing program 2012-2017 would not include any Mid-Atlantic leases effectively shutting out Virginia until at least 2017.

We are grateful to House Natural Resources Chairman Hastings and this Committee for putting forward bills that passed the House of Representatives to both re-instate Lease Sale 220 and open up additional acreage in the Atlantic. Governor McDonnell supports your diligent efforts in making offshore exploration and development a priority for our nation and Virginia now asks for support of legislation to allow revenue sharing of royalties from offshore federal leases.

Development of our domestic oil and natural gas resources is critical to our nation’s secure energy future. And the states must be partners with the federal government in that development. And as partners the states should share in the revenues derived from OCS activity.

America needs the new energy sources that lie off Virginia’s coast. While we support new OCS activity off Virginia, it must be recognized that there will be significant costs borne by the state to bring that new energy onshore. Roads, bridges, terminals, ports and other related infrastructure will need to be expanded and maintained.

While we look forward to the job creation, the ability to keep up with this increased activity and ensure we have a world class safety regime in place to protect our shoreline is essential to making sure everyone knows how serious we are about safety and the environment.

Sharing revenues with states tells states the federal government is serious about partnering on both the costs and benefits of energy production.

In 2006, Congress passed the Gulf of Mexico Energy Security Act of 2006 (GOMESA). GOMESA created sharing of leasing revenues with oil producing states in the Gulf and the Land & Water Conservation Fund for coastal restoration projects. This legislation grants a share of revenues generated from leases in one leasing block between 2008 and 2015 – and then from all Gulf of Mexico leasing from 2016 forward. Between fiscal years 2008-2010, it led to nearly \$30 million in revenue sharing to those states and coastal political subdivisions and will generate significantly larger sums going forward.

Virginia believes it is important to share revenues from oil and gas exploration with all coastal states who allow leasing in a similar way as it is constructed in the Gulf. One recent study (Southeast Energy Alliance) concluded that revenue sharing could mean up to \$250 million annually for Virginia if exploration and development moves forward in Virginia's adjacent waters.

Last week, Virginia's Governor joined with the Governors of Alabama, Mississippi, Alaska, South Carolina and Louisiana in expressing their strong support for legislation in the Senate that would allow their states to receive a fair share of the revenues from energy generation and production in the Outer Continental Shelf (OCS). I would ask that a copy of that letter be entered into the record of this hearing.

As these Governors stated, there is more than sufficient cause to justify energy-related revenue sharing. Ocean energy development can place heightened demands on transportation services,

the environment, ports, fuel supplies, pipeline and transmission corridors, public health and safety, and other infrastructural, social and natural resources.

Last year's tragic offshore oil spill also showed that such development can carry real consequences – not for the inland states that ultimately use much of the energy being produced, but for the coastal states at water's edge. Returning a reasonable portion of the vast revenues from offshore generation and production to the states, will allow them to be far better prepared to mitigate the resulting risks and impacts. This is an equitable bargain, wherein the states that choose to pursue development receive a deserved portion of its rewards.

States rights are equally important to that of the federal government. Sharing revenue with the states additionally affords opportunities for the states to dedicate funds for important projects that otherwise would not be possible. A current example of such programs can be seen in Louisiana where all money from offshore revenue sharing goes to coastal protection, wetland mitigation efforts, and hurricane protection. Without the offshore revenue sharing program, such funding would likely not be possible.

As you are aware, under the Mineral Leasing Act, all states with energy production on federal lands are rightly entitled to roughly half of the associated revenues – and, like offshore oil and gas, these revenues are derived from resources which belong to the entire nation, not any one state. Thus, the same sort of revenue sharing should apply to states most affected by development of the OCS.

The Mineral Leasing Act allows inland states with mineral leasing to received 50 percent (with Alaska as the exception with 90 percent) of all revenues generated from royalties and bids for onshore oil and natural gas production with the federal government. From 1982 through 2002, royalties from onshore resource revenue sharing was over \$11.1 billion, with Virginia receiving just \$900,000 during that twenty year period. Providing for revenue sharing for coastal states in offshore development could provide a huge economic impact for states such as Virginia that have not had the benefits of inland oil production.

Today in areas where offshore drilling occurs, coastal states collect 100 percent of the royalties from production in state waters. Under the Outer Continental Shelf Lands Act, seven coastal states, Alabama, Alaska, California, Florida, Louisiana, Mississippi, and Texas, are entitled to 27 percent of the revenue within three miles of their state waters. From 1982 through 2002, this 27 percent in revenue sharing has produced \$3.08 billion for these seven states. This revenue sharing program was established to compensate these states for any damage to or drainage from natural gas and oil resources in State waters that are adjacent to Federal leases. The precedent for offshore revenue sharing of federal lease sales has already been set.

As a result of the Gulf of Mexico Energy Security Act of 2006, from 2007 through 2016, the Gulf States of Alabama, Louisiana, Mississippi, and Texas will share 37.5 percent of revenues from new leases in the 0.5 million acres in the Eastern Gulf and the 5.8 million acres in the Central Gulf. After 2016, they will share 37.5 percent of revenues from all Gulf leases issued after December 2006. The Gulf States have seen significant income from offshore resource revenue sharing programs. Virginia and the other coastal states should be afforded similar opportunities for revenue sharing.

As seen during the tragedy of Deepwater Horizon, states are on the front lines of the effects of offshore federal leases, not the federal government. Just as anticipated by the Outer Continental Shelf Lands Act in 1953, states bear the most burden of any damage or drainage from natural gas and oil disasters in federal waters. The states are the first on the scene and the states are the most directly affected. With the events of last summer, we have seen that the Congress of 1953 was correct in providing for revenue sharing to the seven Coastal States. Now is the time to provide for revenue sharing not just for these seven states and within the three mile marker, but for Virginia and any state with offshore federal leases.

Revenue sharing from offshore resources in federal waters is essential. Revenue sharing provides the states with the economic ability to invest in local communities most affected by development and risk. Benefiting local and state governments helps to promote national economic interests and generate additional federal revenue by increasing state and local participation in offshore projects. Revenue sharing also helps to foster a better working

relationship between federal, state, and local agencies. Local and state governments will be incentivized to assist in the offshore exploration process by creating necessary infrastructure or passing offshore exploration friendly legislation.

In a recent letter, Senator Jim Webb said, “Development of OCS energy resources, if accomplished with a fair and equitable formula for sharing of revenues between the federal and state government, will attract well-paying jobs and holds significant promise for boosting needed domestic energy production.” Governor McDonnell could not agree more.

Again, the precedent for royalty revenue sharing has already been set. Since the 1920’s the states have been collecting royalties from onshore federal mineral leases. Since the 1950’s seven coastal states have been collecting royalties from offshore federal leases within three miles of their state waters. Since 2006, four coastal states have been collecting royalties from offshore federal leases in any federal waters under GOMESA. Now is the time for Congress to act to provide for all states, not just a select few, with offshore federal leases to receive royalty revenue sharing. Revenue sharing with Virginia and other states can help the budgets of our states and foster stronger national economic interests.

Our national energy needs are too great to not have revenue sharing. We are hopeful that this Committee and this Congress will allow revenue sharing to go forward and the Commonwealth of Virginia stands ready to lend a hand in any way we can.

I look forward to answering any questions the Committee may have.