STATEMENT OF
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U.S. DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
HOUSE OF REPRESENTATIVES

March 17, 2009

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear here today to discuss the Minerals Management Service's (MMS) role in promoting environmentally responsible energy and mineral development on the Outer Continental Shelf (OCS). The Department of the Interior (Department) and its agencies, including the MMS, are public stewards for much of our nation's energy resources; about 1/3 of the nation's domestic oil and gas production comes from Federal resources managed by the Department. The MMS's responsibilities, as defined by the OCS Lands Act, extend over about 1.7 billion acres of the Federal OCS and range from initial resource assessments and lease sale offerings through oversight of exploration, development, production, and ultimately decommissioning. Figures 1 and 2 depict the OCS off of the continental United States (Figure 1) and off of Alaska (Figure 2). This Subcommittee has played an important role in shaping the Nation's domestic energy program, particularly with regard to encouraging environmentally sound development of our domestic oil, gas, and renewable energy resources on the OCS.

The MMS is charged with managing access to and development of energy and mineral resources on the OCS in a manner that is operationally safe and environmentally sound, prevents waste, and provides a fair return for public resources. This mission is accomplished through the Offshore Energy and Minerals Management office's implementation of its two major programs: managing conventional OCS oil and gas development and facilitating new renewable energy production on the OCS. In addition, MMS administers the OCS revenue sharing programs established by Congress including the provisions under section 8(g) of the OCS Lands Act, the Gulf of Mexico Energy Security Act (GOMESA), and the 4-year State grants program, the Coastal Impact Assistance Program (CIAP)) established under the Energy Policy Act of 2005 (EPAct).

The OCS plays a vital role in domestic energy development, including the new OCS Renewable Energy Program established with the enactment of the EPAct. Under this new OCS renewable energy program, the Secretary of the Interior has oversight and regulatory authority for activities on the OCS that produce or support production, transportation, or transmission of energy from sources other than oil and gas, including wind, wave, and ocean current. The Secretary has delegated this authority to the MMS because of its extensive experience in offshore oil, gas and marine sand and gravel leasing and development.

My testimony today will highlight MMS's stewardship role in managing conventional resource development on the OCS and will focus on four areas of the Federal offshore program:

1. Data and trends regarding OCS oil and natural gas;
2. The OCS oil and gas leasing program;
3. The MMS Deepwater Gulf of Mexico 2008 Report and recent deepwater development; and
4. Our expanding Renewable Energy Program

<u>Data and Trends for the OCS Oil and Natural Gas Program</u>

In 2007, 14 percent of the nation's natural gas and 27 percent of its oil production, including oil for the Strategic Petroleum Reserve, came from the OCS. Even as we aggressively pursue renewable energy opportunities on the OCS, the OCS's role in conventional energy production is likely to remain critical as all sources of energy contribute to our Nation's energy security.

MMS currently administers about 8,124 leases covering 43.4 million acres and oversees 3,795 production facilities. In calendar year 2008 alone, 1,439 new oil and gas leases were issued from four OCS lease sale offerings, resulting in bonus bids totaling nearly $6.9 billion.

To ensure the Federal government receives a fair market return for these offshore lease rights, the MMS employs a detailed bid evaluation process to determine bid adequacy. This process considers the potential income stream to the lessee associated with the lease and all potential royalties and rental payments to be paid to the Federal government to ensure the bonus received adequately reflects the value of the potential resources associated with the lease. As a result of our evaluation process, nearly $10 million in high bids were rejected in four 2008 sales because they did not meet fair market value criteria.

About one-quarter of the leased acreage on the OCS is producing, accounting for about 8 billion cubic feet of natural gas per day and 1.4 million barrels of oil per day. As noted earlier, in 2007 the OCS contributed roughly 14 percent of the domestic natural gas supply and 27 percent of the domestic oil supply. According to the MMS publication, *Gulf of Mexico Oil and Gas Production Forecast: 2007-2016,* gas production in the Gulf of Mexico has struggled to remain at current levels. The 2008 production data, when tabulated, will most likely represent a decline from the 2007 statistics due to the impacts on Gulf of Mexico production from Hurricanes Gustav and Ike. The bulk of federal offshore production occurs on the Gulf of Mexico OCS – about 98 percent for natural gas and 95 percent for oil – illustrating the need to consider diversifying the types of energy we use. While hurricanes pose a threat in the Gulf of Mexico, Arctic conditions in Alaska also present challenges. Even so, the Northstar and Liberty projects represent promising developments in the Beaufort Sea. The Northstar project is a federal-state unit with about 18 percent of the production allocated to federal leases. In August 2008, MMS approved the Plan of Operations for the Liberty project.

The MMS OCS resource assessment and the USGS national onshore and State water assessments of oil and gas resources show significant potential remains as both proven reserves (in known fields) or undiscovered resources (yet to be discovered fields). The majority of the estimated undiscovered technically recoverable oil and natural gas are expected to underlie Federal lands – onshore and OCS – with the OCS share accounting for about 64 percent of the oil and 39 percent of the gas. The 2006 MMS National OCS Assessment estimates that the OCS holds 15.4 billion barrels of oil and 60.2 trillion cubic feet of gas in reserves. Technically recoverable OCS resources are estimated at 85.8 billion barrels of oil and 419.9 trillion cubic feet of gas, though not all of these volumes are economically recoverable at today's prices. When the congressional moratoria expired on October 1, 2008, many of these resources became available for consideration for potential leasing. These newly available OCS areas hold the potential of about 14 billion barrels of oil and 55 trillion cubic feet of gas. However, there is uncertainty in resource estimates for these areas of the OCS subjected to long-standing moratoria or presidential withdrawal. In the Atlantic and most of the west coast, the last acquisition of geophysical data and drilling of exploration wells occurred more than 25 years ago.

The MMS manages and tracks an extensive array of information about oil and gas lease activity requiring MMS review and approval. As requests for MMS approvals come in, the information is recorded in our computer system. Every plan of exploration, every development plan, every production request, and every pipeline is entered into the computer. Every individual well is also captured. Every environmental review is captured. Any approval of a lease extension, through a suspension of operations or suspension of production, is also captured. However, MMS does not capture information at the individual company level such as when the lessee is evaluating a lease or a prospect and deciding whether to go forward.

The MMS is a leading participant and supporter of scientific research relating to the ocean environment. Environmental stewardship is emphasized in all phases of OCS activity, from the development of the 5-Year Program through platform decommissioning and removals. A fundamental goal of MMS's Environmental Program is to develop workable solutions for those activities in the OCS that could adversely affect environmental resources. This allows approved exploration and development to continue while the environment is safeguarded. In fiscal year 2008, 29 environmental studies were contracted at nearly $16 million. In that same time, the MMS also completed 320 environmental assessments and 2 detailed environmental impact statements (EIS).

The MMS also funds research into operational safety, pollution prevention, and oil spill response and cleanup capabilities through its Technology Assessment and Research (TAR) Program. This research enables MMS managers to make better decisions in evaluating operational proposals and enables regulators to consider the latest technological advancements in enacting new regulations. In fiscal year 2008, the MMS funded 29 TAR studies at nearly $3 million. As a result, the MMS has a robust regulatory system designed to prevent accidents and oil spills from occurring. This includes redundant well control equipment, emergency plans, and production safety systems as well as a host of other requirements. This has proven effective both in the wake of hurricanes in the Gulf of Mexico and in the Arctic conditions on the Alaska OCS. The MMS also requires oil spill contingency plans because spills are always a possibility.

Oil and gas exploration and development activities do not begin as soon as a lease is granted. Rather, in accordance with the OCS Lands Act, before any drilling begins, a company must provide a detailed exploration plan or development plan explaining how its operations will be safely conducted and how any potential environmental issues will be mitigated. Many regulatory approvals are required. Air emissions permits and water discharge permits must also be obtained as required by law. In fiscal year 2008, 253 exploration plans and 224 development plans were approved by MMS as being technically and environmentally sound.

For major facilities, MMS conducts an onsite inspection before allowing production to begin. Often this is a joint inspection with the U.S. Coast Guard. The MMS also has an extensive, detailed inspection program to ensure the safety of offshore oil and gas operations and compliance with environmental stipulations, and to verify production quantities. This program places MMS inspectors offshore on drilling rigs and production platforms on a daily basis to check operator compliance with extensive safety and environmental protection requirements. The MMS has a staff of inspectors and engineers that daily fly offshore to conduct both planned and unannounced safety and environmental inspections. In fiscal year 2008 alone, over 26,780 oil and gas compliance inspections were conducted including 682 drilling, 3,632 production, 4,358 environmental, 7,113 meter, 4,908 pipeline, and 6,087 other (e.g., U.S. Coast Guard, flaring, etc.) inspections.

The OCS Oil and Gas Leasing Program Process

The MMS manages access to the OCS for oil and gas development through the 5-Year OCS Oil and Gas Leasing Program (5-Year Program). The process to develop the 5-Year Program, as mandated by section 18 of the OCS Lands Act, includes three separate public comment periods, two separate draft proposals, development of an environmental impact statement, and the final proposal. It culminates in a decision by the Secretary of the Interior on a new 5-Year Program. Additionally, there is an "annual review" step for the years during which a 5-Year Program is in place and a new one is not yet being developed. A 5-Year Program consists of a schedule of oil and gas lease sales indicating the size, timing and location of proposed leasing activity that the Secretary determines will best meet national energy needs for the five year period following its approval. An area must be included in the current 5-Year Program in order to be offered for leasing. Even after the Secretary approves a final program, there is a lengthy public preparation process for each lease sale that includes consultation with stakeholders at several junctures and more specific environmental analysis also in accordance with the National Environmental Policy Act (NEPA).

Current 5-Year Program: 2007-2012

The current 5-Year Program covers the years 2007 through 2012 and includes 21 sales in eight OCS planning areas. While most of the sales scheduled are within OCS planning areas in the Gulf of Mexico and offshore Alaska as traditionally offered, the 5-Year Plan also includes "new" areas: Proposed Sale 214 offers a portion of the North Aleutian Basin area; Proposed Sale 220 offers an area in the mid-Atlantic offshore the Commonwealth of Virginia; Sale 208 offers the newly opened '181 South' area (Figure 4) in the Central Gulf of Mexico; and, Sale 224 held March 2008, included a newly offered portion of the Eastern GOM Planning Area. Because the Eastern Gulf of Mexico Sale 224 was mandated by GOMESA to include a half million acres in the Eastern Gulf of Mexico, it was not subject to section 18 analysis. Also pursuant to GOMESA, 37.5 percent of all revenues from new leases in that area will be shared among the four Gulf of Mexico producing states and their coastal political subdivisions beginning with the bonuses and first year rentals received on blocks in that 0.5 million acre area. Another 12.5 percent will be distributed to the Land and Water Conservation Fund to provide financial assistance to states.

Since the current 5-Year Program began on July 1, 2007, six sales have been held resulting in 2,395 new leases and $10 billion in bonus bids. Sale 208, offering acreage in the Central Gulf of Mexico, will be held tomorrow. It will be the first sale in the program to offer the newly available acreage in the '181 South Area' as mandated under GOMESA. Revenues from new leases issued in the '181 South Area' also are subject to GOMESA's immediate revenue sharing provisions.

As Figure 3 depicts, in recent years, there has been a rising trend in OCS oil and gas leases issued and acreage leased. OCS oil and gas lease sales held in fiscal year 2008 contributed significantly to the inventory of acreage leased on the OCS. In fact, Sale 206 in the Central Gulf of Mexico held in March 2008 set the record in high bids (both number received and dollar amount) in U.S. leasing history. As the moratoria were only recently lifted, the Gulf of Mexico and Alaska Regions account for the bulk of active leases; all newly leased OCS acres are in the Eastern, Central, and Western Gulf of Mexico Planning Areas and the Beaufort Sea and Chukchi Sea Planning Areas.

The MMS has begun the process of preparing an EIS to assess the potential impacts of proposed OCS oil and gas leasing, and potential subsequent exploration and development activities in the North Aleutian Basin Planning Area in the Bering Sea, off southwestern Alaska (depicted on Figure 2). Proposed Sale 214 is tentatively scheduled for 2011. MMS has evaluated the oil and gas resource potential for the North Aleutian Basin Planning area. The current knowledge of geology in the basin indicates that it is gas prone. The 2006 OCS Resource Assessment estimate for this area is a mean value of undiscovered technically recoverable natural gas resource of 8.62 trillion cubic feet and the mean value of undiscovered technically recoverable oil resource of 750 million barrels.

The MMS has also initiated the first step for a potential lease sale offshore Virginia (depicted on Figure 1). The proposed sale will be held no earlier than 2011. The MMS published a Call for Information and Interest/Nominations and Notice of Intent to Prepare an EIS (Call/NOI) for Lease Sale 220 in the *Federal Register* on November 13, 2008. The area covered by the Call/NOI is about 2.9 million acres offshore Virginia in the Mid-Atlantic Planning Area, and is at least 50 miles offshore.

Under the 2007-2012 5-Year Program schedule, there are 13 other proposed sales yet to be held: 4 in the Central Gulf of Mexico; 3 in the Western Gulf of Mexico; 2 in the Beaufort Sea; 2 in the Chukchi Sea; and 2 special interest sales in Cook Inlet; all are in various stages of the sale process. Again, the Central Gulf of Mexico Sale 208 will be held tomorrow.

New OCS Oil and Gas Leasing Program: 2010- 2015

In the summer of 2008, the Secretary of the Interior directed MMS to begin the initial steps for developing a new 5-Year program. On August 1, 2008, MMS published a *Federal Register* Notice requesting information on whether to start a new program and what areas should or should not be included in a new program. As of October 1, 2008, Congress discontinued its longstanding moratoria on new leasing in the Atlantic, Pacific and a portion of the Eastern Gulf of Mexico, making most of the OCS available for consideration of leasing in a new program. (Most of the Eastern Gulf of Mexico and a portion of the central Gulf of Mexico are under moratorium until 2022, pursuant to GOMESA).

The Draft Proposed Program (DPP) issued January 16, 2009, is the second step in a multi-year process to develop a new oil and gas leasing program. The DPP seeks public comment on all aspects of a new program beginning as early as 2010 including conventional and renewable energy development and economic and environmental issues in the OCS areas.

On February 10, 2009, Secretary Salazar announced his strategy for developing an offshore energy plan that includes conventional and renewable energy resources. As part of his plan, the comment period for the DPP was extended for an additional 180 days to September 21, 2009, in order to provide additional time for input from states, stakeholders and affected communities. Also, Secretary Salazar directed the MMS and the U.S. Geological Survey to assemble a report on offshore energy resources along with information regarding sensitive areas and resources in the OCS. This report will synthesize the vast knowledge-base on OCS energy resources and environmental factors in one concise document. The report will be delivered to the Secretary at the end of this month. Following the publication of the report, the Secretary will conduct four regional meetings, one each for the Gulf Coast, Pacific Coast, Atlantic Coast, and Alaska in an effort to gain insight and comment from all stakeholders in OCS energy.

MMS's 2008 Deepwater Gulf of Mexico Report and Deepwater Development

The MMS report *Deepwater Gulf of Mexico 2008: America's Offshore Energy Future* highlights the activities, trend analyses and technological advancements in this important portion of the Gulf of Mexico for 2007. Deep water has continued to be a very important part of the total Gulf of Mexico production, providing approximately 72 percent of the oil and 38 percent of the gas from the region. In 2007, MMS approved 15 new technologies for use in the deepwater Gulf of Mexico.

Deepwater continues to play an important role in our nation's energy portfolio with 15 deep water discoveries announced in 2008. Figure 5 denotes these discoveries and their development options. Operators of the Kodiak and the Freedom/Gunflint discoveries have indicated that these discoveries could add significant new oil production. Several of the natural gas discoveries are already under development as subsea tiebacks and additional natural gas discoveries are planned for subsea tieback.

The year 2008 was an active year for leasing activity with 679 leases covering about 3.9 million acres issued in the deep waters of the Eastern, Central, and Western Gulf of Mexico. About 74 percent of the acres leased in the Gulf of Mexico OCS in 2008 were in water depths greater than 400 meters. Bonus bids accepted for deep water leases accounted for nearly 93 percent of all bonus bids accepted in 2008, suggesting that this deep water acreage is some of the most promising acreage leased in the Gulf of Mexico.

Renewable Energy

The EPAct encourages the development of renewable energy resources as part of an overall strategy to develop a diverse portfolio of domestic energy supplies for our future. The quantity of domestic renewable energy produced on Federal lands is currently small in comparison to conventional resources. However, the need to diversify our energy portfolio and transition to a clean energy economy has spurred an increased interest in renewable energy development on federal lands both onshore and offshore, and the potential for increased use of these resources is great.

The EPAct granted the Department discretionary authority to grant leases, easements or rights-of-way for activities on the OCS that produce or support production, transportation, or transmission of energy from sources other than oil and gas. Simply put, the new authorities gave the Department the ability to manage the future development of promising new ocean energy sources in the OCS such as wind, wave, ocean current, and solar energy. Additionally, the Department was given the authority to grant leases, easements, or rights-of-way for other OCS activities that make alternate use of existing OCS facilities. These other uses would be limited to energy-related and authorized marine-related purposes, such as offshore research, recreation and support for offshore operations to the extent that those activities are not authorized by other applicable law.

Secretary Salazar has stated his commitment to issuing a final rulemaking to encourage orderly, safe, and environmentally responsible development of renewable energy resources and alternate use of facilities on the OCS. The publication of a final rulemaking is pending a thorough analysis by the Administration to ensure its completeness and clarity in promoting the sound development of OCS renewable energy resources.

The MMS completed a programmatic EIS in November 2007, which examines the interface between the marine and human environments and the technologies and activities that generate energy from ocean renewable energy resources. While the Department is the lead agency for this program, the MMS continues to work with its sister agencies to make certain that the unique role of each agency is considered and addressed in order to ensure that the Federal Government's myriad interests in such projects are fully considered and that the Nation's economic, environmental and land use interests are adequately protected.

The MMS has also evaluated the Cape Wind Energy Project identified by EPAct for concurrent consideration along with the ongoing rulemaking process. The Final EIS, which assesses the physical, biological and social/human impacts of the proposed Cape Wind Energy Project as well as all reasonable alternatives and proposed mitigation, was announced on January 16, 2009. A Record of Decision on Cape Wind is pending.

The MMS's renewable energy program is an integral component of Secretary Salazar's commitment to a comprehensive energy plan for the OCS. Indeed, developing a comprehensive plan for offshore energy development is our focus as we compile our comprehensive report and conduct regional meetings to gather more insight into both renewable and conventional energy development.

Conclusion

With President Obama identifying clean energy as an issue critical to our Nation's economic recovery, the Department and MMS are poised to play a vital role as the manager of OCS energy resources, both conventional and renewable. As the MMS now embarks on providing an orderly, safe, and environmentally responsible program to develop renewable energy on the OCS, we continue our stewardship role in managing the Federal offshore oil and gas, and mineral resources. The magnitude and complexity of being a responsible steward requires a continued commitment to balance our Nation's energy needs with environmental protection, safe operations, and receipt of fair returns for Federal resources.

We welcome your input on our Nation's energy initiatives and look forward to working with the Committee as we move forward with our OCS energy and minerals programs.