

Statement of American Petroleum Institute Group Director of Upstream and Industry Operations Doug Morris to the House Committee on Natural Resources

September 17, 2009

Mr. Chairman, I am Doug Morris, Group Director for Upstream and Industry Operations for the American Petroleum Institute, which represents nearly 400 companies involved in all aspects of the oil and natural gas industry. We welcome this opportunity to present the industry's views on the Consolidated Land, Energy and Aquatic Resources Act of 2009.

Securing America's energy future will require the development of all forms of energy – plus greater focus on energy efficiency. Alternative energy sources, in which our members have made major investments, will grow in importance. However, oil and gas are the lifeblood of the nation's economy and will continue to be vital to our energy security for decades to come. Oil and gas keep our transportation systems running, heat and cool our homes, and are the basic components of thousands of consumer products used daily.

Oil and natural gas production from federal lands plays a key role in supplying our nation's energy. These areas account for almost 25% of our domestic oil and natural gas production, provide thousands of jobs for Americans, and are a major source of revenue for the government.

For decades, federal policy prevented the development of the hydrocarbon reserves located beneath most of the OCS. Now, for the first time in many years, the Secretary of the Interior

has the opportunity to open these areas to exploration and production – and he should do so by moving forward in a timely manner with the draft proposed Five-Year Leasing Plan. New lease sales in the Atlantic, Pacific, and Eastern Gulf of Mexico will help meet our future energy needs, support our future growing economy, and create thousands of well-paying jobs.

Earlier drafts of this bill would have seriously hampered development of oil and natural gas on federal lands. We thank the Chairman for eliminating many of these onerous provisions. However, we do have concerns with this legislation.

First, this legislation does nothing to encourage development of oil and gas resources. In fact, it creates additional layers of bureaucracy that could, in fact, slow down leasing.

For example, it has the potential to interfere with the OCS Five year Leasing Plan process that has worked well for 30 years. This process includes three separate public comment periods, two separate draft proposals, development of an environmental impact statement, and the final proposal.

And, even after the Secretary approves a final program, there is a lengthy public comment period for each lease sale that includes consultation with stakeholders at several stages and additional environmental analysis.

This process ensures that the Secretary receives extensive public input enabling a full consideration of all economic, social, and environmental values and encourages approval of Five-Year Programs that contribute to the nation's energy security.

Unfortunately, this legislation creates new regional planning councils – a new independent tier of decision makers – which appears to duplicate many of the activities that are currently being performed in the 5 year Plan Leasing Process. Furthermore, these councils have the potential to interfere with OCS development since leasing cannot occur if regional plans do not identify an area as being suitable for oil and gas leasing. By vesting this authority within regional councils, the bill could very well put areas effectively under moratoria for years to come.

The bill would also eliminate the Royalty in Kind (RIK) program and the use of categorical exclusions. The RIK program was intended to simplify payments to the federal government. It has the potential to eliminate a range of thorny regulatory and compliance issues. The use of categorical exclusions is designed to eliminate unnecessary and redundant environmental studies.

Problems with the management of either of these programs, whether perceived or actual, can and should be addressed by the Interior department. We believe that Secretary Kempthorne resolved many of them and that Secretary Salazar will continue the process. Elimination of programs that have so much potential to increase efficiency is both unnecessary and unwise.

And finally, provisions such as requiring the promulgation of benchmarks for the development of each lease and the addition of a ‘production incentive fee’ could increase the burden on lessees and the Interior department with little or no positive impact on the development of federal leases.

In summary, we believe that it is important to develop policies that provide more access to federal lands and remove barriers that delay the development of these resources. We should not be erecting additional obstacles to development, which, unfortunately, would be the unintended consequence of this legislation.

Delays in oil and gas developments do have a direct impact on our economy. A preliminary study on the impact of a two year delay in developing unconventional natural gas resources shows that about 5.8 Tcf would not be produced from federal lands over the next 30 years. This 18% drop in production would amount to a \$37 billion loss to the economy.

We look forward to working with you on the continued development of a pro-access policy that best meets the energy needs of our nation.