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Committee on Natural Resources

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Happy Mardi Gras. Mr. Chairman, Ranking Member and Committee members, thank you for the opportunity to participate in today's important hearing. I am Garret Graves, Director of the Louisiana Office of Coastal Activities, a member of the State's Mineral Board and Chair of the Louisiana Coastal Protection and Restoration Authority.

Louisiana's coastal area is often referred to as a "working coast" and is home to the world's best food, the unique Cajun culture, five of the nation's top 15 ports, the top producer of fisheries in the continental United States, the largest source of domestic oil, number two domestic provider of natural gas, the second largest percentage of oil refining capability in the country, the nation's highest capacity of Liquefied Natural Gas terminals capacity and the home of over two million people that rely upon a resilient, progressive, sustainable and productive coastal area. The Office of Coastal Activities was established to coordinate the various policies affecting activities in Louisiana's coastal area. It operates similar to the Council on Environmental Quality in that the office is designed to function across all state agencies and advocate the consensus state coastal policy.

I commend the Committee for taking on the extraordinary task of developing comprehensive national energy policy. It is a challenging effort that, while necessary, I would not wish upon anyone. Your approach to take a step back and fully evaluate all energy sources, their potential to meet energy demand in both the short and long-term, and to implement progressive, sustainable energy policy is exactly the recipe that is needed to reduce the volatility in energy prices, reduce the burden on consumers' pocket books, increase employment opportunities and to improve our national, economic and environmental security – as President Obama has defined in his energy goals.

Last month, the Department of the Interior's Minerals Management Service released a draft plan for offshore oil and gas development that included the potential for additional production offshore California and new oil and gas production areas on the east coast. Released by the previous

Administration, the plan would go into effect following the current 2007-2012 offshore plan. The release of the draft plan was the impetus for many thoughts and discussions on a comprehensive energy policy and evoked many strongly-held opinions from communities across the country. I believe this was the intent of the proposal. Secretary Salazar's recent decision to provide for additional time to consider this draft plan was appropriate considering the significant change in policy that could result.

In reviewing the Committee's previous outer Continental Shelf hearing on February 11, and the response of a number of coastal states regarding the anticipated impact of the draft 2010-2015 plan, I believe it important to share and hope that the Committee considers the experiences of Louisiana related to offshore energy development.

Offshore Louisiana has provided approximately 85 percent of the outer Continental Shelf (OCS) oil and an estimated 81 percent of OCS natural gas. This translates to over 14 billion barrels of crude oil and condensate and 135 trillion cubic feet of natural gas produced offshore our state. As you can see, we have had more offshore production of oil and gas than any other area of the nation. Rather than rely upon beliefs or feelings, I hope that some of our actual experiences will weigh heavy during this Committee's deliberations.

There are many experts that have predicted the collapse of tourism, fishing, maritime and other coastal activities with the introduction of offshore production. The facts in Louisiana prove otherwise:

Tourism

- New Orleans is one of the top national and world tourist destinations.
- Before Hurricane Katrina tourists to New Orleans alone had over 10 million visitors per year.
- Tourism, including this week's Mardi Gras celebration, in the New Orleans area provides a $5 billion economic impact annually.
- Replacing the revenue from tourist visits to New Orleans would require imposing a tax of $3000 per family statewide.
- The State of Louisiana had over 24 million tourists visits last year.
- Tourism is one of the largest economic sectors in the state and generates an estimated $10 billion annually.

Oil Spills

- According to the Minerals Management Service, since 1980 over 4.7 billion barrels of oil have been produced and less than one-thousandth of one percent of that has spilled.
- The MMS also found that there has not been a spill greater than 1000 barrels in the last 15 years from an offshore platform.
- An MMS study determined that Hurricanes Katrina and Rita:
  - no spill contacts to the shoreline
  - no oiling of marine mammals, birds, or other wildlife
  - no large volumes of oil on the ocean surface to be collected or cleaned up
  - no identified environmental impacts from any OCS spills from Hurricanes Katrina or Rita

- no major spills

Fisheries

- Louisiana is the top producer of seafood in the continental United States.
  - The state produces more oysters, crabs, crawfish than any other
  - More shrimp is harvested offshore Louisiana than any other state (pre-Katrina)
- Louisiana is a top recreational fishing destination
- In 2006, an estimated 1.2 million recreational anglers tested their saltwater fishing skills in Louisiana's coastal waters
- Numerous national and world fishing records have been set in Louisiana's coastal area.
- According to the National Oceanographic and Atmospheric Administration, Louisiana has the fourth best recreational fishing industry in the nation (measured by economic impact).
- There is an estimated $3 billion annual economic impact from recreational saltwater fishing in Louisiana.
- Tens of thousands of jobs in our state are dependent upon the recreational fishing industry.
- The commercial fishing sector generates over $2 billion in sales annually and supports an additional 50,000 jobs.

Maritime

- Five of the nation's top ports are located in Louisiana's coastal area.
- Louisiana is home to the top tonnage port in the hemisphere and the largest port complex in the world.
- Over 30 states rely upon Louisiana's port system for maritime commerce.

I would like to reemphasize that these are realized not projected statistics.

While Louisianans have benefited by the extraordinary economic activity associated with Louisiana's tourism, fisheries and our maritime industries, the nation has been the true beneficiary of our hosting federal oil and gas activities:

Energy

- An estimated 17-20 percent of domestically-produced oil and gas comes from Louisiana.
- 30 percent of the nation's crude oil supply and 34 percent of the natural gas consumed in the U.S. is either produced in Louisiana, in the Louisiana OCS or requires Louisiana's energy infrastructure for passage to market.

Fiscal Impact to U.S. Treasury

- In addition to indirect benefits to the economy and revenues generated by income taxes, OCS energy production provides one of the largest non-tax revenue streams to the U.S. Treasury.
- In recent years, direct OCS revenues to the federal treasury were estimated to approach $10-12 billion annually.

Jobs

- A study performed for the Mid-Continent Oil and Gas Association determined that the energy industry (includes onshore and offshore production) has a $65 billion annual economic impact on the state.
- OCS production has an economic impact of nearly $6 billion annually and supports over 320,000 jobs in the state.

I recognize that many believe that increasing oil and gas production will prolong America's dependence upon fossil fuels and threaten the health of the environment. The State of Louisiana commends the Committee for its continued focus on promoting diverse alternative energy sources to meet our nation's growing energy demands. We believe that wise investments of the nation's resources include efforts to improve the competitiveness and efficiency of wind, solar, geothermal, hydropower, nuclear, wave, tidal, biomass and many other energy sources. For countless reasons, it is an appropriate and laudable long-term goal to power our homes, cars, businesses and industrial activities with alternative sources of energy. Unfortunately, cost competitiveness issues and a lack of appropriate infrastructure prevent access to many alternative energy technologies for most Americans. With the current state of the economy, Congress should be very sensitive to any policies that would increase financial pressure in the form of higher utility and fuel costs on our already-struggling families.

As we all know, it would be impossible to simply flip a switch to fulfill all energy demands with alternative sources overnight. It is difficult to predict any scenario whereby conventional fuels will not continue to play a major role in powering our economy as part of a near-term or transitionary energy strategy. This near-term strategy may take 15 years or it may take much longer, but significant thought must be given to how and where our conventional fuel demands will be met.

The United State is currently importing nearly 60 percent of the oil we consume. This is up from 24 percent in 1970. In addition to increasing our trade debt, current supplies of oil are being met by increasingly volatile or threatening countries. The top five exporters of oil to the United States include the unstable regulatory environments of Venezuela and Nigeria. In addition, many of environmental standards related to oil production fail to compare to the stringent standards in the United States. It is often said that we should not expand OCS production in the United States because it would take up to ten years to get new production areas online. While we could quarrel over the timing of bringing production online, it is counterproductive to the larger issues before the Committee. We should focus on a comprehensive vision that plans for our long-term goals while providing for our immediate and transitional needs.

I urge the Committee to keep in mind that oil imports have steadily increased since the 1970s and are projected to continue to increase for the next several years. The United States has one of the most stable regulatory climates in the world and we maintain some of the most stringent environmental standards. For those of us concerned about the environment, I would assume that this concern expands beyond the borders of the United States – the global environment. Would it not make more sense to meet our near-term demands for conventional fuels by expanding domestic production areas? If

properly implemented, this will increase employment opportunities, reduce our trade deficit, prevent the transfer of billions of dollars per month to foreign governments and increase our energy security.

Earlier this month, Secretary Salazar said, "We need a new, comprehensive energy plan that takes us to the new energy frontier and secures our energy independence". President Obama established a goal of eliminating our dependence on Middle Eastern oil within 10 years. While it would be premature to endorse the proposed 2010-2015 OCS plan, a responsible expansion of domestic production areas combined with increased energy efficiency, conservation and strategic investments in expanding alternative energy production and development are fundamental components of any solution. Oil and natural gas prices will increase again. We cannot drill ourselves out of our energy demand, but we can take responsible steps to transition ourselves onto a path of true energy independence.

To summarize my initial recommendations to achieve the President's energy goals:

1. Recognize that any near-term or transitionary comprehensive energy strategy will continue to rely upon conventional fuels (including natural gas) beyond that which are currently produced domestically;
2. Expand efforts to improve energy efficiency and the conservation of energy resources;
3. Supplement the tens of billions of dollars previously-invested in alternative energy research, development and incentives to improve the competitiveness and infrastructure associated with alternative energy sources (including nuclear and hydropower);
4. Make strategic investments in improving the efficiency of conventional fuels;
5. Recognizing the stringent environmental standards in the United States, determine where significant reserves of accessible hydrocarbons can be safely produced domestically;
6. Ensure that investments in this transitionary strategy will complement longer-term efforts to achieve energy independence and improve our energy security by meeting our energy demands with clean, safe, stable domestically-produced energy; and
7. Energy revenues should be shared with host states as outlined below.

Our experiences in Louisiana demonstrate the ability to allow for the coexistence of multiple uses of coastal areas; however, I do not want to suggest that OCS activities are without impact or cost to states.

As the nation's top energy source and the "guinea pig" for many early oil and gas production practices, Louisiana has experienced adverse impacts from energy production. These cumulative impacts from decades of production include:

- Stress upon our landside infrastructure to support offshore activities.
- The loss of coastal wetlands as a result of early practices related to accessing hydrocarbons in the coastal area.
- The intrusion of saltwater into freshwater ecosystems.

Congress should accompany any new expansion or increase in domestic oil and gas production with a program to allow for the sharing of energy revenues. While Congress did provide for the limited sharing

of offshore production revenues in the Gulf of Mexico Energy Security Act, pursuant to the act revenue sharing begins in 2017. This program is too far in the future to address the current needs in coastal states like Louisiana and would prevent proactive steps to be taken by states initiating offshore production.

Rather than reinventing the wheel, Congress should simply model any energy revenue sharing program after that which has been used for onshore production areas on federal land since 1920 – the Mineral Leasing Act (MLA). Under this law, 50 percent of energy revenues from production of resources on federal lands are shared with states that host such production. In the case of the MLA, there are no strings attached to the use of these shared revenues. In recent years, the states of New Mexico and Wyoming have shared $1 billion annually from this program.

In addition to the 50 percent going directly to states that host onshore energy production, an additional 40 percent goes into the Reclamation Fund to carry out water projects in these same states. In effect, 90 percent of the energy revenues from production on federal lands are returned to states while only 10 percent goes to the U.S. Treasury. In the case of offshore production today, virtually all revenues generated from production in the OCS goes to the Treasury. Quite simply, the disparity between onshore production and offshore production revenue sharing is illogical and contrary to the nation's best interests.

In the case of Louisiana, our citizens adopted a Constitutional amendment by an overwhelming margin that dedicates any OCS revenue sharing to a coastal trust fund to be used for coastal restoration and hurricane protection.

Louisiana has lost up to 35 square miles of coastal lands and wetlands per year in recent years. Since the 1930s, we have lost over 2300 square miles. In 2005, the state lost over 200 square miles of land in just two days. Hurricanes Katrina and Rita had an extraordinary impact on our coastal ecosystem that exacerbated land loss. This may seem like a parochial issue or "Louisiana's problem" to many of you. I would like to help you to understand why this is actually the nation's challenge.

Following the 2005 hurricanes every consumer in America was paying an average of 75 cents to one dollar a gallon in higher fuel prices. This was a result of the energy infrastructure damage in our state. A recent study found that if just one of Louisiana's energy ports were shutdown for three weeks, the loss in revenues to U.S. firms would exceed $10 billion.

In addition, responding to the 2005 hurricanes Congress has appropriated funds or established programs totaling nearly $150 billion – the key word here is "responding". Had revenue sharing provisions been in place, I estimate that nearly 80 percent of the 1800 lives that were lost and 80 percent of the funds appropriated by Congress could have been saved. Further, the fuel price spikes experienced by consumers nationwide would have been averted. Under the Louisiana Constitution, the state would have utilized its revenue sharing funds for measures to protect, restore and improve the resiliency of coastal Louisiana.

Finally, we urge that Congress establish parity on state seaward boundaries. Currently, the states of Texas and Florida enjoy a state seaward boundary of three marine leagues, or roughly nine miles. Louisiana, Mississippi and Alabama have a seaward boundary of only three miles. The disparity dates back to when states were admitted to the union and its basis is simply irrelevant to sustainable coastal management. Providing consistent or expanded state boundaries would allow states to exert greater control over those areas which affect onshore and near shore activities. It will reduce conflicts related to coastal consistency determinations and result in improve management of coastal resources.

Recommendations related to the expansion of offshore development:

1) Identify those areas with significant recoverable hydrocarbon reserves;
2) Evaluate the impact of the recovery of reserves with states;
3) Weighing state interests, consistency with ongoing coastal uses, energy independence goals and national security determine which new production areas should be developed;
4) Establish an offshore revenue sharing program comparable to that under the Mineral Leasing Act for onshore energy production;
5) Energy revenue sharing should have a historical component recognizing and addressing needs related to historical and cumulative impacts of multi-decadal production;
6) Revenue sharing should provide sufficient resources to allow for proactive efforts to prevent adverse impacts from offshore development;
7) A portion of offshore energy revenues should be dedicated to the development of onshore and offshore alternative energy resources; and
8) As recommended by the Oceans Commission, an ocean and coastal trust fund should be established to address coastal and near-shore management efforts of all coastal states and territories.

I appreciate this opportunity to share experiences from Louisiana's long offshore development history and look forward to your questions.