

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON NATURAL RESOURCES**

WRITTEN TESTIMONY OF
DAVID E. DISMUKES, PH.D.
PROFESSOR, ASSOCIATE EXECUTIVE DIRECTOR
& DIRECTOR OF POLICY ANALYSIS

CENTER FOR ENERGY STUDIES
LOUISIANA STATE UNIVERSITY

June 30, 2010

Chairman Rahall, Ranking Member Hastings, and Committee members, thank you for the opportunity to appear before this Committee to share my opinions on the proposed Consolidated Land, Energy, and Aquatic Resources Act (“CLEAR”) that is the subject of today’s hearing.

My name is David E. Dismukes and I am a Professor and Associate Executive Director for the Center for Energy Studies at the Louisiana State University in Baton Rouge, Louisiana. The Center for Energy Studies is a state-funded research institute that was created by the Louisiana Legislature in 1982 to examine energy-related issues impacting our economy, citizenry, and environment.

The Center takes a multidisciplinary approach to examining or supporting a wide range of energy-related research. For the past 15 years, one area of concentration has been issues associated with offshore oil and gas exploration and production, much of which has been done on the behalf of the Minerals Management Service (“MMS”).

The proposed CLEAR Act that is the subject of today’s hearing is certainly an ambitious piece of legislation designed to change offshore energy regulatory policies in the

aftermath of the *Deepwater Horizon* accident. The Bill includes a number of positive provisions. For instance, Sections 101 to 103, and Section 107, collectively, would allocate the planning, leasing, and inspection functions of the former Minerals Management Service into three new bureaus. This separation should help instill greater confidence in each bureau's independence and remove the conflicts of interest that were perceived to be inherent within the old MMS regulatory and governance structure.

Another important regulatory provision included in the Bill is the framework for buttressing each of these new regulatory agencies' professional staff, allowing them to recruit and retain the best available talent in the market within specialized skill areas.

An additionally important provision included within this legislation is the establishment of benchmarks and performance metrics that evaluate operator success at meeting expected environmental and safety standards. However, in developing these provisions, Congress may be missing a unique opportunity to create a performance-based regulatory structure that establishes a symmetrical system of penalties and rewards that can lead to both improved offshore environmental and safety outcomes, and private sector research in technologies that will lead to both profitable and environmentally positive outcomes.

While the bill includes a number of positive provisions, it includes several important deficiencies. I would like to focus on the two most important deficiencies from Louisiana's perspective. The first deficiency in the bill is that it would remove the offshore GOM deep gas drilling and deepwater drilling incentives. These provisions are simply job killers for a large number of oil and gas employees along the GOM. Today,

there are more than 250,000 people directly employed in oil and gas related activities along the GOM states, more than 100,000 of whom live and work along the coastal parishes and counties of the Gulf alone. The Deepwater Royalty Relief Act of 1995 is widely credited along the GOM as re-invigorating the Gulf as a viable producing basin after a long period of dormancy.

This deepwater activity will be significantly reduced, if not potentially lost, if these incentives are removed. It would be a fallacy to assume that this deepwater activity could simply be made up from increased conventional exploration and production opportunities in shallow water or on the shelf. The shallow-water GOM is a relatively mature basin that has seen significant production declines in both crude and natural gas over the last decade. The only recent opportunities for new and expanded shallow water activity were the deep-drilling gas opportunities facilitated by the Energy Policy Act of 2005. Unfortunately, the proposed bill under consideration today would eliminate even those emerging opportunities and shut down tens of thousands of jobs for Louisiana oil and gas workers, as well as all of the additional small businesses that are located along the coast, and rely on these offshore activities for their livelihood.

In addition to being job killers, these two provisions would also challenge our national energy security as the GOM accounts for 30 percent of all domestic crude oil production, and prior to Hurricane Katrina, the region accounted for more than 25 percent of all domestic natural gas production. There are roughly 120 active deepwater wells in the GOM that account for 21 percent of all domestic crude oil supplies. Removing deepwater incentives would erode this 21 percent contribution quickly,

resulting in significant impacts on our imports of foreign sources of oil, our trade deficit, and our budget deficit.

The second deficiency in this bill is its failure to address a long-standing inequity in the mineral revenue process. Louisiana and other GOM states have supplied the U.S. with a significant share of its energy production, transportation, and refining capacity for more than a century, and have supported offshore oil and gas activities for more than 50 years. Yet despite this contribution, the GOM states have received few to no bonuses, rentals, or royalties created by the production just off our shorelines.

Instead of remedying this inequity, the proposed bill would allocate 10 percent of the annual federal mineral revenue from offshore production into a number of competitive grant programs that would be available to all coastal states regardless of their historic or current energy production contributions. Congress should use this opportunity to create a permanent remedy to this inequity by including revenue sharing provisions for those states that are actively supporting offshore energy production activities regardless of whether they are fossil fuel or renewable based.

I thank you for the opportunity to appear before your Committee to speak about these timely and important energy regulation issues.