

STATEMENT OF

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HEARING ON ENHANCING AMERICA'S ENERGY SECURITY

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Mr. Chairman and Members of the Committee, thank you for the opportunity to appear here today to discuss enhancing America's energy security. I would like to discuss the key role the Department of the Interior has in meeting the nation's energy needs.

Our Energy Future

America faces an energy challenge. Energy use sustains our economy and our quality of life, but a fundamental imbalance exists between our energy consumption and domestic energy production. We must look at ways to narrow the gap between the amount of energy we use and the amount we produce. There is no one single solution. Achieving the goal of secure, affordable and environmentally sound energy will require diligent, concerted efforts on many fronts on both the supply and demand sides of the energy equation.

President Bush's National Energy Policy report laid out a comprehensive, long-term energy strategy for securing America's energy future. That strategy recognizes that to reduce our rising dependence on oil and gas, we must also increase domestic production. The President proposes to open a small portion of the Arctic National Wildlife Refuge (ANWR) to environmentally responsible oil and gas exploration using newly available, environmentally friendly technology. ANWR is by far the largest untapped source of domestic petroleum and would equal nearly 60 years of imports from Iraq.

In 1998, a United States Geological Survey assessment of petroleum resources of the 1002 region of ANWR estimated the expected mean volume of technically recoverable oil beneath the 1002 area to be 10.4 billion barrels. For comparison, the U.S. currently consumes about 7 billion barrels per year. Of this, the U.S. imports about 4 billion barrels and produces about 3 billion barrels.

Most media coverage focuses on the parts of the National Energy Policy that discuss production of traditional energy, but increased energy conservation and alternative and renewable sources are also critical components of the President's balanced, comprehensive policy. Good stewardship of resources dictates that we use energy efficiently and conserve resources. Thus, fossil fuel development is only a part of the solution to our Nation's energy issues. Americans have already made great strides in using energy more efficiently. Since 1973, the United States economy has grown nearly three times faster than energy use, in part due to more efficient use of energy. Had we continued to use energy as intensely as in the 1970's, the United States would have consumed about 177 quadrillion BTUs of energy in 2001, compared to actual consumption of approximately 97 quadrillion BTUs. To put that in perspective, the 80 quadrillion BTUs saved is more than the total amount of energy produced in the United States from all sources – oil, gas, coal, nuclear, renewable – in the year 2000. Simple conservation actions by individuals and small business can yield impressive results in demand reduction.

Alternative and Renewable Energy

Alternative and renewable sources of energy can also play an important role in helping meet our increased energy needs. To this end, the National Energy Policy encourages development of a cleaner, more diverse portfolio of domestic energy supplies. The Policy includes measures to aid in the development and expansion of renewable energy technologies in use today, including geothermal, wind, solar, and biomass, as well as continued research into using hydrogen as an alternative energy carrier. Such diversity helps to ensure that Americans will continue to have access to the energy they need.

Between 1975 and 2000, total renewable energy production in the United States increased from about 4.8 to 6.8 quadrillion BTUs, supplying about seven percent of the Nation's energy consumption in 2000. By 2020, renewable energy production is forecast to rise to about 8.6 quadrillion BTUs, but still will account for only about seven percent of consumption.

Thus, for the present and as far as the future can be reasonably forecast, renewable energy is likely to remain an incremental source of supply supplementing fossil fuels as our primary source of energy. Renewable and alternative energy sources can be an important component to a diversified domestic energy portfolio especially for addressing distributed energy and peak demand needs. At the Department of the Interior, Secretary Norton has convened two conferences focused on the renewable resource industry. These conferences have generated ideas and action.

The Department is also supportive of efforts to increase the use of biomass. The President's National Energy Policy directed the Department to evaluate ways to increase the use of biomass as a renewable resource. We are particularly encouraged by the possibility of linking biomass energy production with our efforts on hazardous fuel reduction in the national forests and rangelands. The National Fire Plan's hazardous fuels reduction program has the potential to produce a steady supply of non-commercial grade organic matter that could be utilized as a valuable renewable energy source.

As part of its efforts to advance the President's National Energy Policy, the BLM recently released a joint report with the Department of Energy that identifies and evaluates renewable energy resources on public lands. It highlights the best places on public lands for particular renewable resource development. The BLM will use the report's findings to prioritize land-use planning activities, and to increase the development and use of renewable energy resources on public lands.

Energy Production from Federal Resources

As the Assistant Secretary for Land and Minerals Management I have administrative and managerial responsibility for the Bureau of Land Management (BLM), the Minerals Management Service (MMS), and the Office of Surface Mining Reclamation and Enforcement (OSMRE). All of these bureaus are undertaking significant initiatives to fulfill the President's National Energy Policy, and are working diligently to promote environmentally sound production of our Nation's energy resources. The BLM has authority to offer lands under their jurisdiction to produce mineral and energy (renewable and non-renewable) resources, and the MMS has the authority to offer Outer Continental Shelf (OCS) lands under their jurisdiction to produce oil, natural gas, and mineral resources, consistent with environmental protection goals. The Administration is seeking enactment of legislation, of which I will speak of later, to expand the Secretary's authority offshore to include renewable resources and other energy-related activities.

The Department of the Interior manages approximately 500 million surface acres of land, with the BLM managing 262 million surface acres and more than 700 million subsurface acres of Federal mineral estate. MMS manages approximately 1.76 billion acres of offshore Federal mineral estate. These lands and resources currently account for 30% of total domestic energy production – including 48% of geothermal production, 35% of natural gas production (25% offshore and 10% onshore), 35% of coal production, 35% of oil production (30% offshore and 5% onshore), 20% of wind power, and 17% of hydropower production.

To address the Nation's growing energy needs, the Department believes we must optimize leasing opportunities on federal lands. Orphan wells continue to be a major concern for the Department. The BLM has approximately 250 orphan wells, the majority of which are in Alaska, California, and Wyoming. The Department supports the idea of working with lessees to help address this problem, and reclaim orphan wells on public lands.

The Secretary continues to seek out advice and counsel from our stakeholders on a myriad of issues affecting the Department's mission and operations. Resource advisory councils established by the Department provide advice, counsel and recommendations on issues within the special areas designated in their charters. The BLM works actively with its Citizen Resource Advisory Councils. The Department also continually looks for ways to improve its business practices for the benefit of industry and other land use groups. Improving business functions and utilizing best management practices allows the Department to make timely and informed decisions using the best available information and science. This benefits all interested parties by limiting uncertainties, delivering better services and reducing costs. The Department is committed to making public input into decision making the cornerstone of its process by practicing the Secretary's 4-C's – consultation, cooperation, and communication all in the service of conservation. These efforts have cultivated a community-based conservation, citizen-centered stewardship of the public lands that has benefited all public land users.

New Energy Resources

Deepwater areas of the Gulf of Mexico are expected to provide substantial volumes of new natural gas production, but it may be several years before that area reaches its potential. The shallow waters of the Gulf of Mexico hold the greatest promise for new resources of natural gas from deep wells to meet the Nation's near-term gas needs. The Department continues to look at appropriate royalty relief incentives to encourage exploration and production of oil and gas in the deep waters of the Gulf of Mexico and to extend production on marginal leases that are still producing but approaching abandonment. Beginning in 2002, MMS started providing royalty relief as part of OCS lease sale terms to encourage production from wells on new leases drilled to deep horizons (greater than 15,000 feet total depth). This deep gas play, expected to hold between 5 and 20 trillion cubic feet (Tcf) of gas, can be developed quickly due to existing infrastructure in the shallow waters of the Gulf. MMS also issued a final rule in July 2002 that allows companies to apply for lease suspensions for exploration of subsalt resources.

Coalbed natural gas, also known as coalbed methane, accounts for about 9.6% of the total natural gas reserves in the United States. The Interior West States of New Mexico, Utah, Colorado, Wyoming, and Montana hold an estimated 30 to 48 Tcf of undiscovered natural gas resources associated with coal. This represents the second largest gas resource in the United States behind the Gulf of Mexico. While many areas of the United States are experiencing declining natural gas reserves, the Interior West resources are largely untapped and the amount of newly discovered gas in the area is increasing on a daily basis.

The majority of the coalbed natural gas is in the federal mineral estate. Some of the surfaces overlying federal minerals is, however, in private ownership. As good stewards of these domestic natural gas reserves and consistent with the National Energy Policy directive to facilitate our domestic energy supplies, we should develop these resources in an environmentally-responsible manner to sustain our Nation's quality of life in the face of our increasing demand for natural gas. The BLM believes in being a good neighbor to adjacent landowners and expects federal lessees to meet their obligations to private surface owners.

Coalbed natural gas from public lands can and should play a role in meeting increasing energy demands. Congress established a policy of multiple use for much of the federal lands, which the Department strongly supports. Multiple use is critical for the health and well-being for the citizens of our public land states. Many uses, including access for energy development, can co-exist on public lands, if properly managed. We do not believe the public lands and resources should be put off limits to development. Today the Nation meets over 50% of demand for petroleum products with imports. Many of these imports are vulnerable to disruptions resulting from instabilities in exporting Nations or regimes. Thirty percent of

our total domestic energy production comes from Federal lands and resources. Without the contribution of public resources, the country's energy supply would be even more dependent on foreign sources. And, of significance for the public lands states that are anywhere from 30% to 80% Federally-managed, the development of these resources can help western rural economies by creating jobs, new wealth, and tax revenue.

The EPCA Inventory

In January 2003, BLM delivered to Congress the first Energy Policy Conservation Act (EPCA) inventory of 59.4 million acres managed by Federal agencies in five study areas in the West. The areas contain the bulk of the known natural gas and much of the known oil resources under public management in the onshore United States. This initial EPCA inventory provides an estimate of undiscovered technically recoverable resources and proved reserves of oil and gas beneath the five basins and an inventory of the extent and nature of limitations to their development. The Department is working to complete the full assessment of onshore oil and natural gas resources on federal lands beyond the five initial basins, not including Alaska. We anticipate this process will take approximately two years. All information gathered as a result of the EPCA effort will be integrated into the BLM's ongoing land use planning efforts and are a cornerstone for future energy production from public lands. We would note that the EPCA inventory does not include information relating to the federal OCS, which will play a big part in America's energy future.

Energy Rights-of-Way

Federal lands are important to the rights-of-way needs of the energy industry and utilities, especially in the western United States. BLM estimates that 90% of the oil and natural gas pipeline and electric transmission rights-of-way in the western U.S. cross federal lands. The BLM alone administers approximately 85,000 rights-of-way, including approximately 23,000 for oil and gas pipelines.

Our challenge is to improve and expand the existing network of pipelines and transmission lines to meet the increased demand for energy. One way to meet that challenge is to identify and designate right-of-way utility corridors on public lands in a collaborative manner. The Department has been working with the Western Governors' Association and the Western Utility Group to do just that. The designation of utility corridors through BLM land use plans provides an important tool in the planning and location of future pipelines and assists in the processing of rights-of-way applications on the public lands. In addition, the Department is committed to working with our stakeholders and Congress to ensure that rights-of-way (ROW) rental fees on public lands are appropriate and fair, and that there is certainty in ROW rental fee valuation.

Offshore Resources

As you may know, Federal offshore lands on the OCS encompass 1.76 billion acres. However, of this total, about 600 million acres are currently off limits to oil and gas leasing. This action has been extended by Presidential directive through 2012. Nevertheless, industry activities on the remaining areas available for development, particularly the 40 million acres currently under lease, make the OCS an essential part of ensuring the energy and economic security of the United States.

At the end of December 2002, the Department estimated that Federal offshore lands produce about 1.7 million barrels of oil each day, accounting for 30 percent of the oil produced in the United States. This makes the OCS the largest single source of oil for the U.S. economy (larger than Saudi Arabia or our neighbor to the north, Canada). In addition to oil, the OCS is also a major source of the Nation's natural gas, making a contribution of about 13 billion cubic feet per day, or about 25 percent of the Nation's domestic production. More than 90 percent of these resources come from the Gulf of Mexico OCS, with the rest coming from leases offshore California and the Beaufort Sea offshore Alaska.

With major projects slated to come online in the next few years (including *Thunder Horse*, the largest discovery in the U.S. in the past 30 years), we project that OCS production could easily reach 2 million barrels per day in the next few years and account for over a third of domestic crude oil production. Natural gas production is expected to remain at its current level, or increase slightly.

At the Department, we are taking steps to ensure that the OCS remains a solid contributor to our Nation's energy and economic security by holding sales in available areas on schedule. The OCS 5 Year Oil and Gas Leasing Program for 2002-2007, which was approved in July 2002, calls for 20 lease sales in the Gulf of Mexico and certain areas offshore Alaska during that timeframe. We estimate that these areas could contain economically recoverable resources of up to 22 billion barrels of oil and 61 trillion cubic feet of natural gas.

In 2002, the Department's Minerals Management Service held the 128th and 129th competitive oil and gas lease sale since OCS leasing began in 1954. For these two Gulf of Mexico sales alone, MMS leased over 800 tracts, bringing in more than \$500 million in revenue from high bids for the American people. Today, March 19, 2003, the Department is holding the 130th lease sale in the program. Since 1953, more than \$140 billion has been brought into the U.S. Treasury from OCS lease sales.

In addition to holding the lease sales outlined in the 2002-2007 program, MMS has developed a series of economic incentives to encourage industry to explore "frontier areas" where business risks are very high, and to facilitate getting the most production possible from available OCS acreage. The MMS continues to offer a royalty incentive program for deepwater leases in the Gulf of Mexico, and has expanded the incentives to promote development of natural gas from deep horizons in shallow waters. These leasing incentives come in the form of a royalty suspension for specified amounts of production from these areas. Currently, MMS is considering extending the shallow water, deep gas royalty relief provisions to leases purchased before 2002. MMS has also offered lease extensions for certain qualifying exploration activities that focus on reservoir targets that occur beneath subsurface salt sheets.

For offshore areas of Alaska, MMS is considering various incentives in addition to changes in suspension policies that will allow more time for exploration activity to occur. Additionally, MMS is evaluating its business processes program wide to take advantage of opportunities to make the permitting process for drilling wells more efficient.

The Department would also like to see permanent authority for the Royalty-in-Kind (RIK) program, including authority to pay for the administration costs directly related to the President's initiative to fill the Strategic Petroleum Reserve with RIK oil.

Offshore Alternative Energy Proposal

For the past 50 years, the Department has leased the OCS for oil, gas, and other minerals under the mandates of the OCS Lands Act. However, in recent years we have seen a growing interest by the private sector in developing alternative energy projects located on the OCS, such as renewable energy production from currents, wind and waves, and floating supply bases and other facilities that would directly support OCS oil and gas development.

In an effort to facilitate these innovative projects and to ensure that the Federal government's economic and land use interests are fully protected, the Administration submitted legislation to Congress in June 2002 that would set up a statutory framework for reviewing and permitting such activities that are not otherwise covered by statute. It was developed in close collaboration with other Federal agencies with permitting authority on the OCS and would provide the Department with a full suite of regulatory tools necessary to comprehensively manage non traditional OCS energy and related activities.

Mrs. Cubin introduced the legislation during the 107th Congress and again on February 13, 2003 as H.R. 793. The Administration continues to strongly support enactment of such legislation and looks forward to

working closely with Congress on this important issue. We firmly believe that we must encourage new and innovative technologies to help us meet our increasing energy needs. Enactment of this legislation will be one important step in helping us meet those needs.

Conclusion

We will continue to operate under Secretary Norton's leadership and vision for managing the public resources – through communication, cooperation, and consultation in the service of conservation. The essence of this goal is to continue to forge new and stronger partnerships with other Federal and state agencies, Tribal governments, and all of our stakeholders – including Congress – to create greater opportunities for the responsible development of energy resources on Federal lands.

In summary, the following actions have been implemented or are being considered to facilitate the President's National Energy Policy:

- The BLM has recently released a joint report with the Department of Energy that identifies and evaluates renewable energy resources on public lands. The BLM will use the report's findings to prioritize land-use planning activities, and to increase the development and use of renewable energy resources.
- To ensure that the OCS remains a solid contributor to our Nation's energy and economic security by holding sales in available areas on schedule, we approved a 5-year Oil and Gas Leasing Program in July 2002 that calls for 20 lease sales in the Gulf of Mexico and certain areas offshore Alaska during that timeframe. We estimate that these areas could contain economically recoverable resources of up to 22 billion barrels of oil and 61 trillion cubic feet of natural gas.
- MMS is acting to increase energy production in promising, shallow waters of the Gulf of Mexico by providing royalty relief in OCS lease sale terms to encourage production from new wells drilled to deep horizons (greater than 15,000 feet total depth). This area of the Gulf of Mexico is expected to hold between 5 and 20 trillion cubic feet (TCF) of gas and can be developed quickly due to existing infrastructure in the shallow waters of the Gulf.
- MMS is considering providing similar shallow water, deep gas royalty relief to leases purchased before 2002.
- MMS issued a final rule in July 2002 that allows companies to apply for lease term extensions that will provide additional time to analyze complex geophysical data in area under salt sheets. Vast resources of oil and natural gas may underlie sheets of salt in the OCS, which makes it difficult to obtain a clear image of the subsalt geology. This will help identify and define drilling targets and accelerate discovery and production of deep natural gas as well as foster new technology.
- The Department completed the EPCA inventory this year. The EPCA inventory provides an estimate of undiscovered technically recoverable resources and proved reserves of oil and gas beneath the five Interior West basins and an inventory of the extent and nature of limitations to their development.
- BLM is completing the necessary land management planning for the two major coalbed natural gas basins in the United States: San Juan and Powder River Basin. BLM's completion of these plans may result in additional drilling of federal minerals, which will increase the production of natural gas from coalbed natural gas. BLM is developing policies to streamline its processing of applications for permits to drill, which will include the development of an approved methodology ("best management practices") for drilling permit approval. BLM is also working on guidance to improve BLM and its lessees coordination and consultation with surface land owners. In

addition, BLM is improving the necessary coordination and consultation with State and other federal agencies to address the concerns that have been raised and to make the process more efficient.

- The BLM has prioritized a number of land-use planning efforts that have major oil and gas components. The public process, once completed, will expedite the development of natural gas and oil.
- The Department is working with State and local governments as well as with industry (e.g., the Western Governors' Association and the Western Utility Group) to identify and designate right-of-way utility corridors on public lands.
- The Department is taking steps to ensure that the OCS remains a solid contributor to our Nation's energy and economic security by holding sales in available areas on schedule. In past years, scheduled sales in several areas were either delayed, cancelled or put under moratoria even though they appear on a 5-year schedule. This did not provide industry with the certainty it needs to make long-term investments in the OCS.
- In support of the President's goal of streamlining permitting of energy projects, MMS has initiated a multi-year effort designed to increase our efficiency in processing applications to permit drilling of OCS wells.
- The Administration submitted legislation to Congress in June 2002 that would set up a statutory framework for reviewing and permitting alternative energy and energy-related activities not otherwise explicitly covered by statute. This legislation will include renewable energy projects, such as wind, wave or solar energy; and energy-related projects that are ancillary to OCS oil and gas development, such as offshore staging facilities and emergency medical facilities.

Thank you for the opportunity to testify before you today. I welcome any questions the Committee may have.