

BLM AND FOREST SERVICE OIL AND GAS PERMITTING

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND
MINERAL RESOURCES

OF THE

COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

April 25, 2001

Serial No. 107-20

Printed for the use of the Committee on Resources



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

or

Committee address: <http://resourcescommittee.house.gov>

U.S. GOVERNMENT PRINTING OFFICE

71-930 PS

WASHINGTON : 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
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BLM AND FOREST SERVICE OIL AND GAS PERMITTING

**Wednesday, April 25, 2001
U.S. House of Representatives
Subcommittee on Energy and Mineral Resources
Committee on Resources
Washington, DC**

The Subcommittee met, pursuant to notice, at 2:06 p.m., in Room 1324, Longworth House Office Building, Hon. Barbara Cubin [Chairman of the Subcommittee] presiding.

Ms. CUBIN. The oversight hearing by the Subcommittee on Energy and Mineral Resources will come to order.

The Subcommittee is meeting today to hear testimony on BLM and Forest Service oil and gas permitting. Under Committee Rule 4(g), the Chairman and the Ranking Member can make opening statements and all these other members that you see sitting here at the dais will have to submit their opening statement for the record.

STATEMENT OF THE HONORABLE BARBARA CUBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING

This is the fourth Subcommittee hearing on issues surrounding energy supplies from our public lands. To date, we have focused on broader concerns of how much oil and gas may exist beneath these lands, where and how much is available for leasing, and the impact of the roadless rule upon accessing potential energy sources. Today, however, our witnesses are here to tell us about the nitty-gritty of the permitting process for onshore mineral leases. That is, after the BLM auctions a tract of an oil and gas lease sale or the parcel is picked up over the counter after receiving no bids at auction, what happens next? Much argument has gone on over the "availability" for leasing, but unless and until a drill hole is placed into the leasehold acreage, there will be no supply of crude oil or natural gas for the Nation.

We have heard uncontroverted evidence from our earlier hearings that the energy resource potential is quite large in the Rocky Mountain basins, so if these public lands are going to provide an exploration and development base, then we need to find a way to get leased tracts drilled and online more quickly than has happened in the past. I am sure we will continue to debate passionately about whether or not certain areas ought to be leased at all.

But where there is agreement to lease, how do we streamline this decision making process on applications for permits to drill?

I want to thank our witnesses today from New Mexico, Colorado, and Wyoming who have traveled here to give us their views and to welcome our Land Management agency witnesses, as well. I am hopeful that, together, we can find ways to expedite the necessary review process while retaining the protection of the environment which lease stipulations and mitigating measures are designed to ensure.

Natural gas from my own State of Wyoming, be it in the Green River Basin or the Powder River Basin, is just waiting to be drilled and sent to market. Much of it will be burned to generate electricity and to meet Clean Air Act requirements or to heat many homes. I think it is in our Nation's best interest to ask, "What can Congress do to make the 'fuel of the future' the 'fuel of today'?"

[The prepared statement of Ms. Cubin follows:]

**Statement of The Honorable Barbara Cubin, Chairman,
Subcommittee on Energy and Mineral Resources**

This is the fourth Subcommittee hearing on issues related to energy supplies from our public lands. To date, we have focused on broader concerns of how much oil and gas may exist beneath these lands, where and how much is available for leasing, and the impact of the roadless rule upon accessing potential energy sources. Today, however, our witnesses are here to tell us about the nitty-gritty of the permitting process for onshore mineral leases. That is, after the Bureau of Land Management auctions a tract at an oil and gas lease sale, or the parcel is picked up over-the-counter after receiving no bids at auction, what happens next?

Much argument has gone on over "availability" for leasing, but unless and until a drill hole is placed into the leasehold acreage there will be no supply of crude oil or natural gas for the Nation. We have heard uncontroverted evidence from our earlier hearings that the energy resource potential is quite large in the Rocky Mountain basins. So, if these public lands are going to provide an exploration and development base, then we need to find a way to get leased tracts drilled and on-line more quickly. I'm sure we will continue to debate passionately about whether or not certain areas ought to be leased at all, but, where there is agreement to lease, how do we streamline decision-making on applications for permits to drill?

I want to thank our witnesses from New Mexico, Colorado and Wyoming who have traveled here to give us their views, and to welcome our land management agency witnesses as well. I am hopeful that together we can find ways to expedite the necessary review process while retaining the protection of the environment which lease stipulations and mitigating measures are designed to ensure.

Natural gas from my State of Wyoming, be it in the Green River Basin or the Powder River Basin, is just waiting to be drilled and sent to market. Much of it will be burned to generate electricity to meet Clean Air Act requirements or to heat many homes. I think it is in our Nation's best interest to ask "what can Congress do to make the 'fuel of the future' the 'fuel of today' "?

Ms. CUBIN. So with that, I now recognize the Ranking Member, Mr. Kind, for any statement he might have.

**STATEMENT OF THE HONORABLE RON KIND, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF WISCONSIN**

Mr. KIND. Thank you, Madam Chair, and I join you today in welcoming the Federal and industry witnesses invited to testify on the oil and gas permitting issues.

As we have heard in the prior sessions that you have referred to, some industry witnesses have purported that much of the public domain containing oil and gas reserves is off limits or unreasonably restricted and, therefore, prevents oil and gas production, thus

creating a national energy crisis. The facts, however, as I understand them, are that oil and gas production from public lands increased exponentially under the prior administration. It is simply not accurate to conclude that a few examples of difficulties with BLM or the Forest Service mean that laws, policies, or regulations in these areas have arbitrarily constrained or prohibited access to economically recoverable oil and gas resources.

And as we have heard in some of these prior hearings, many of these oil and gas resources are found in remote areas, are difficult to develop due to terrain, or contain insufficient resources to warrant investment in development. Utilizing free market principles, we find that most of these areas simply have not been economically viable to explore and drill in.

Further, the vast majority of Federal lands that are restricted are off limits only seasonally, for example, to protect wildlife. We believe, overall, that wildlife resources are important and should not be subservient just to oil and gas production.

Despite the examples provided today, there has been no systematic objective review of the oil and gas permitting program that would enable us to ascertain whether the BLM and Forest Service have been excessive in protecting wildlife resources. I would suggest, Madam Chair, that you and I jointly request the GAO to undertake such a review.

And finally, I continue to urge greater consideration in our deliberations of conservation options that are available today. The United States has less than 5 percent of the world's population but consumes 40 percent of the oil and 23 percent of the gas. There is much that we as a Nation can do through investments in energy conservation, renewable and alternative energy sources, and ecological and economic costs associated with our consumption levels in order to develop a long-term energy policy that will be sustainable and that will strike the proper balance between the demand for energy and the supply that exists.

Thank you, Madam Chair, and I look forward to today's testimony.

[The prepared statement of Mr. Kind follows:]

Statement of The Honorable Ron Kind, a Representative in Congress from the State of Wisconsin

Madame Chair, I join you today in welcoming the Federal and industry witnesses invited to testify on BLM and Forest Service oil and gas permitting issues. I would note that the Minority was not informed of this hearing prior to the Easter recess and, therefore, was not able to provide additional perspectives on this important issue. I would hope that in the future, we would do a better job of preparing for Subcommittee hearings.

Today's hearing provides another opportunity for oil and gas officials to express their complaints about the Clinton Administration's management of the public lands, in particular to cite examples of problems they have had securing oil and gas permits to drill on the public domain. We have all experienced, or had constituents who have experienced, frustration or unfair treatment by public servants. However, as we attempt to develop a new comprehensive energy policy, we must look beyond anecdotal examples and examine the big picture.

Our witnesses' personal experiences notwithstanding, the facts are that oil and gas production from public lands increased exponentially under the prior Administration. It is simply inaccurate to conclude that a few examples of difficulties with BLM or the Forest Service mean that laws, policies and or regulations in these areas have arbitrarily constrained or prohibited access to economically recoverable oil and gas resources.

As we have heard in prior sessions, today's industry witnesses purport that much of the public domain containing oil and gas reserves is "off-limits" or unreasonably restricted and therefore prevents oil and gas production thus creating a national energy crisis.

However, as we have learned in these earlier meetings, many of these oil and gas resources are found in remote areas, are difficult to develop due to terrain or contain insufficient resources to warrant investment and development. Utilizing "free market principles," we find that most of these areas simply have not been economically viable.

Further, the vast majority of Federal lands that are "restricted" are off-limits only seasonally, for example, to provide wildlife protection. We believe, overall, that wildlife resources are important and should not be subservient to oil and gas production.

Despite the examples provided today, there has been no systematic objective review of the oil and gas permitting program that would enable us to ascertain whether the BLM and Forest Service have been excessive in protecting wildlife resources. I would suggest, Madame Chair, that you and I jointly request the General Accounting Office undertake such a review.

Finally, I continue to urge greater consideration in our deliberations of conservation options. The United States has less than 5 percent of the world's population but consumes 40 percent of the oil and 23 percent of the gas. There is much we as a Nation can do through investments in energy conservation and renewable energy to reduce our consumption, and the ecological and economic costs associated with our consumption levels.

Ms. CUBIN. It seems I am going to have to work more on my communications skills, since I guess it is not clear what we intended this hearing to do today, and that hearing is to devise ways to help the agencies once we have agreed on the lands that ought to be permitted and drilled, how to expedite that process. The attempt to do this is to help alleviate the energy crisis that we face today, not five years from today.

I cannot let the statement go by that the production on public lands has dramatically increased in the last several years. Yes, it has, but not from the lower 48 States' production. It has been outer continental shelf production where that increase has been made up.

We all understand and believe conservation is a part of the energy crisis problem. Conservation, at best, however, under today's technology and circumstances, can only provide 2 percent out of a 20 percent deficit that we have in energy.

So, I think that there are arguments to be had, but today, I think we are talking about areas that we agree on and how we can help the agencies and how we can help producers be able to get those energy sources to market sooner.

So with that, I would like to at this point insert into the record the opening statement of Mr. Otter.

[The prepared statement of Mr. Otter follows:]

**Statement of The Honorable C.L. "Butch" Otter, a Representative in
Congress from the State of Idaho**

Thank you, Madam Chairwoman, for your leadership in calling this very important hearing today. As gasoline prices continue to skyrocket at the pump and energy supply in the West becomes more and more tight and costly each day, I join you and my colleagues in calling for solutions—solutions that are realistic and lasting. 95 percent of all the new power plants will operate on natural gas, but where will we look for the supply needed to provide affordable energy—from Iraq or Wyoming?

We have trillions of cubic feet of oil and gas resources here in the United States now. Unfortunately, the NEPA permitting process coupled with the short window has created such a disincentive that new exploration and drilling on private and public lands has essentially been shut off. Too often when small oil and gas companies complete lengthy and expensive feasibility studies on their own, they are told by the Federal agencies that the agencies do not have enough resources to complete

the Environmental Impact Statements that are required to begin exploring or drilling for the gas.

Then there is the ever-present issue of endangered species laws and how they interfere with our daily lives. I have heard from Intermountain Gas—a small company in the First District of Idaho that distributes gas to thousands of people in Idaho—that Federal regulations restrict their ability to drill to a mere four months out of the year because of Federal agencies are afraid they will disturb the mating habits of crickets. This is ludicrous, Madam Chairwoman. We are buying more oil from Saddam Hussein than we did a dozen years ago, and we're limiting the ability of our domestic producers to drill in the spacious and sparsely populated intermountain West because it would prevent crickets from mating.

It's time for common sense to prevail. I applaud Secretary Gale Norton's efforts in recent weeks to carefully review the opportunities to unlock new resources for energy supply on Federal lands. I also urge the Federal agencies to streamline the permitting process to allow existing and new leases to move forward.

Ms. CUBIN. I would like to call up today's witnesses. Mr. Peter Culp, the Assistant Director of Minerals, Realty, and Resource Protection with the Bureau of Land Management, welcome. It is nice to see you again. Mr. Mark B. Murphy, President of Strata Production Company; Mr. Marc W. Smith, Executive Director of Independent Petroleum Association of the Mountain States; and Mr. Mike Watford, CEO of Ultra Resources, thank you all for being here.

The Chair will now recognize Mr. Culp to testify for five minutes. The timing lights will be on and they will indicate when your time has concluded, so we ask that you keep your testimony to five minutes and your entire statement will be submitted in the record.

The Chair now recognizes Mr. Culp.

**STATEMENT OF PETER CULP, ASSISTANT DIRECTOR,
MINERALS, REALTY, AND RESOURCE PROTECTION, BUREAU
OF LAND MANAGEMENT**

Mr. CULP. Thank you, Madam Chairman and members of the Subcommittee. I appreciate the opportunity to appear today to discuss the Bureau of Land Management's oil and gas permitting program. I am accompanied by Larry Gadt, the Director of Minerals and Geology for the U.S. Forest Service. In the interest of time, I have submitted a longer statement and I will briefly summarize that.

BLM administers oil and gas leasing on about 570 million acres of onshore mineral estate, including the BLM lands, national forest lands, and other Federally managed lands, such as Department of Defense lands. These lands are the source of about 11 percent of the natural gas and 5 percent of the oil produced domestically.

The lands contain some world class deposits of energy and mineral resources. Places such as the Powder River Basin in your home State of Wyoming and in Montana and the San Juan Basin in New Mexico and Colorado contain impressive and accessible supplies of oil, natural gas, and, I should mention, coal.

In order to respond to our nation's expanding energy needs and decrease our dependency on foreign energy sources, the administration has placed a priority on the production of energy and mineral resources in an environmentally responsible manner from these Federal lands. BLM's workload for oil and gas leasing, and I might add the workload of our sister agencies, as well, is expected to increase significantly.

Just to provide a brief overview of the process, as you stated, public lands are made available for leasing only after they have been evaluated through a multiple use planning process, which involves procedures outlined under the National Environmental Policy Act and our organic act, the Federal Land Policy and Management Act. Special stipulations to protect other resources through mitigation or restrictions on surface uses may be placed on leases. These may include surface occupancy restrictions, controlled surface use, and as was mentioned, seasonal timing limitations. With respect to other agencies, we only approve leases with the consent of those agencies.

All public lands are first offered competitively and then they are available non-competitively, if they are not sold at competitive auction, for a period of a year.

Applications for drilling, the subject of the hearing, are the second part of the process. They must be submitted by the lessees and approved before leasing can commence. In connection with these applications, there is a public posting process and our target is to process applications to drill, or APDs, within a 30- to 35-day period. If there is a delay in meeting that target, we provide the applicants with the reasons for the delay and an estimate of when final action can be completed.

Our budget for this year addresses the expected increase in workload associated with energy development. There is a \$15 million increase for all aspects of our Bureau's energy program. One component of that is \$3 million to carry out the studies that Congress directed in the Energy Policy and Conservation Act (EPCA) of last year. The act calls for studies comparing resource estimates to our planning decisions that will, I think for the first time, definitively answer this question of access to public lands and quantify what the restrictions are. We look forward to completing the study.

And finally, I just want to say we are doing some things to try to expedite the permitting process. Over the last year, we have implemented an electronic process for submitting APDs over the Internet, and that is particularly active in Wyoming. I think we received about 1,300 applications by that method last year. We also have a very promising activity underway called the Federal Leadership Forum to work with the other agencies in the Northern Rockies to expedite the process that we use to evaluate APDs.

I will stop there, Madam Chairman. I look forward to answering your questions.

Ms. CUBIN. Thank you, Mr. Culp.

[The prepared statement of Mr. Culp follows:]

Statement of Peter Culp, Assistant Director, Minerals, Realty and Resource Protection, Bureau of Land Management, U.S. Department of the Interior

Madame Chairman and members of the Committee, I appreciate the opportunity to appear here today to discuss the Bureau of Land Management's (BLM) oil and gas permitting program. I am accompanied by Larry Gadt, Director of Mineral and Geology Management for the U.S. Forest Service.

ENERGY PRODUCTION ON BLM LANDS

The BLM is a multiple-use agency whose mission includes promoting the development of the natural resources on the Federal lands under its jurisdiction, as well as protecting the environmental conditions on those lands. As such, the BLM administers oil and gas leasing on about 570 million acres of onshore mineral estate—including BLM, national forest, and other Federally-managed lands, as well as private

lands where mineral rights have been retained by the Federal Government. These Federal lands are the source of about 11 percent of the natural gas and 5 percent of the oil produced domestically. In Fiscal Year 2000, revenues from onshore production neared \$700 million. A significant portion of these revenues are shared with the individual states in which the production occurs.

BLM-managed lands contain some world-class deposits of energy and mineral resources. Places such as the Powder River Basin in Wyoming and Montana, and the San Juan Basin in New Mexico and Colorado contain impressive and accessible supplies of oil, natural gas, and coal. In order to respond to our Nation's expanding energy needs and to decrease our dependency on foreign energy sources, the Administration has placed a priority on the environmentally-responsible production of energy and mineral resources from these Federal lands. Thus, BLM's workload of oil and gas leasing and permitting is expected to increase significantly in the future. For example, in Fiscal Year 2001 BLM expects to process about 2,600 Application for Permits to Drill (APDs), representing about the average number of APDs annually for the prior six years. In fiscal year 2002, we expect to process about 4,100 APDs. To manage this workload increase, BLM is engaged in a variety of efforts, including analyzing the impediments to accessing available energy resources on Federal lands, streamlining the Bureau's leasing and permitting processes, and improving coordination among affected parties.

Madame Chairman, before discussing some of our Bureau's efforts to address an increasing domestic energy demand and to streamline its work, I will first review BLM's oil and gas leasing and permitting processes.

BLM OIL AND GAS LEASING AND PERMITTING PROCESSES

A "staged" decision-making process currently exists for BLM-managed oil and gas leasing and permitting. The process was designed to accommodate the tentative nature of oil and gas exploration and development, which can be speculative and costly. The stages generally include: 1) determination of lands available for leasing; 2) decision to authorize leasing on specific lands; 3) Application for Permit to Drill (APD) and 4) analysis of field development if oil and gas are discovered. Decisions made at each stage are based on environmental analysis in accordance with the National Environmental Policy Act (NEPA).

Public lands are made available for leasing only after they have been evaluated through BLM's multiple-use planning process, which involves procedures outlined by NEPA and the Federal Land Policy and Management Act (FLPMA). Special stipulations to protect other resources through mitigation or restrictions on surface use may be placed on leases. These stipulations may include no surface occupancy, controlled surface use, and timing limitations. The BLM also manages leasing of oil and gas on Federal lands administered by the Forest Service and other Federal land managing agencies, with their consent.

Industry may nominate (through an expression of interest) specific lands for leasing or may request a lease offering of all available lands within a geographic area. Current law requires that all public lands available for leasing first be offered through a competitive leasing process. Competitive lease size is at least 2,560 acres in the lower 48 states and 5,760 acres in Alaska. Non-competitive leases may be issued only after being offered competitively at an oral auction and not receiving a bid. Such leases represent a small portion of our leases. The maximum non-competitive lease size in all States is 10,240 acres. Both lease types are issued for 10 years and can continue as long as oil and gas is being produced.

Competitive lease sales are offered no less than quarterly when parcels are available. A sale notice, which lists the lands and specific use stipulations for each parcel, is published at least 45 days prior to the auction. On the day of the auction, the successful bidder must submit a properly executed lease bid form, pay a share of the sale cost (\$75 per lease), first year's advance rental (\$1.50 per acre), and not less than the minimum bonus bid of \$2.00 per acre.

Applications for Permit to Drill (APDs) must be submitted and approved before commencement of operations. Certain nonproprietary information must be posted for public inspection during this period. The BLM is required to consult with the appropriate Federal surface management agency no later than five days after the 30-day posting period, or within 30 days for Indian lands. The BLM is required to process the APD within the 35- or 30-day period or advise the applicant of the reasons for disapproval or delay. If there is a delay in meeting the time-frame, the BLM must provide the applicant with the reasons for the delay and when final action can be expected. For operations on National Forest System lands, BLM cannot approve APDs without consent of the U.S. Forest Service.

RESPONDING TO AN INCREASE IN NATIONAL ENERGY NEEDS

Budget Request

To address the high-priority energy demands of our Nation, an additional \$15 million has been requested by the Administration in Fiscal Year 2002 for the BLM's energy and mineral programs. This includes \$2 million to increase oil and gas leasing by 15 percent and APD processing by 1,000 to 2,000 wells. The Administration also requested \$7 million to help ensure that land use plans are updated in a timely manner.

Inventories of Oil and Gas Reserves and Resources (EPCA)

Of paramount importance in responding to our Nation's increasing energy needs is the BLM's involvement in a multi-agency effort to inventory oil and gas reserves and resources on onshore public lands, and to identify the impediments and restrictions to accessing and developing those resources. This project was mandated by Congress at the end of last year through Section 604 of the Energy Policy and Conservation Act (EPCA), and it involves the combined efforts of the BLM, U.S. Geological Survey, U.S. Forest Service, and the Energy Information Agency. These agencies have had numerous meetings already this year to organize and scope the project, and have already identified the priority resource areas. The law requires a report to Congress by the end of 2002. However, recognizing the value of the report during this period of increased focus on energy issues, the group is hoping to produce interim reports prior to that final deadline. The Administration's 2002 budget includes a funding request of \$3 million as part of the BLM budget for the agencies to address the EPCA requirements in 2002.

MAKING BLM PROCESSES MORE EFFICIENT

The BLM must comply with the requirements of existing law regarding oil and gas leasing and permitting processes. In so doing, the Bureau is constantly striving to make these procedures more efficient and is currently involved in several initiatives to achieve such results.

Planning Efforts

Recognizing that out-dated land use plans can result in delays in leasing and approval of permits, the Bureau has undertaken efforts to update those plans. Plans including areas with high potential for oil and gas have been given top priority for updating. We also intend to utilize the information from the EPCA report in these planning efforts.

Coordination Among Affected Parties

One such initiative in which the BLM is involved is the Federal Leadership Forum—an interagency cooperative effort to address issues relating to oil and gas and geothermal development on public lands. The group is comprised of the principal managers of the Federal land management and regulatory agencies of the Rocky Mountains, and it is responding to issues associated with increasing levels of oil and gas development and their potential effects on air quality in the region. The Forum is currently developing unified guidance regarding specific aspects of the NEPA process used for making decisions on oil and gas activities. This type of interagency coordination can assist in removing communication barriers, provide an efficient means for dispute resolution, and eliminate delays during the NEPA process. Such coordination also could be extremely helpful in complying with the requirements of the Endangered Species Act.

Use of Electronic Commerce

The BLM has been utilizing—and is looking to expand the use of—new technologies to streamline some of its processes and procedures. For example, in Wyoming—where the BLM manages leases that produce over 43 million barrels of oil and nearly 500 million cubic feet of natural gas per year—the Bureau has been working with the oil and gas industry to improve its business processes through the use of electronic commerce technologies. Starting last year, operators could electronically submit well permits and reports using BLM's web-based electronic commerce capability. This effort is intended to meet customer requirements for quicker, less expensive and faster permitting and reporting.

During Fiscal Year 2000, BLM Wyoming processed over 1,600 electronic well permits and reports from 23 oil and gas operators. This technology supports the large scale coal bed methane well permitting activity in Wyoming's portion of the Powder River Basin, as well as Pinedale Anticline and Jonah natural gas development activity in the Green River Basin of southwest Wyoming. These new electronic commerce

technologies also have been utilized by the BLM in Colorado, Montana, New Mexico, and Utah.

The BLM also is continuing to encourage state regulatory agencies to join with us in APD processing using the Automated Fluid Minerals Support System. This system will greatly streamline the APD process because operators would only be required to submit one APD to the Federal and State agencies having approval authority. Implementation of this effort is ongoing.

Plans of Development ("PODs")

Another example of BLM's streamlining efforts is the so-called Plan of Development (or "POD") permitting approach that increases BLM's processing efficiency by grouping a large number of APDs together in a certain geographic area. Again using Wyoming as an example, the BLM has used the POD approach in support of the significant coal bed methane activities in the Powder River Basin. The BLM processes a POD—comprising up to 32 APDs—as a group instead of evaluating each APD individually. This enables a larger number of applications to be processed at once, but still requires the operator to submit complete applications on all APDs proposed in the group for this to be effective.

CLOSING

Madame Chairman, I hope this gives the Committee a better understanding of the BLM's current oil and gas leasing and permitting work. I would be pleased to answer any questions that you or the other members of the Committee may have.

Ms. CUBIN. The Chair would now like to recognize Mr. Murphy.

**STATEMENT OF MARK B. MURPHY, PRESIDENT,
STRATA PRODUCTION COMPANY**

Mr. MURPHY. Thank you, Madam Chairman, and members of the Committee. It is a pleasure and an honor to be here today. My name is Mark Murphy. I am President of Strata Production Company of Roswell, New Mexico. Strata is a small independent oil and gas exploration and production company and most of our operations are located on Federal lands in Southeastern New Mexico.

My family has been in the oil and gas industry for four generations. We have been involved in projects throughout the United States, especially in the Rocky Mountain region. I have been a Westerner all of my life. To me, enjoyment of our natural wonders and good stewardship of our lands is a way of life. Commitment to the environment was taught to me by my parents, and if you do not believe me, you can ask them, because they are sitting right back here. It is also being taught by me to my children.

I am an avid outdoorsman. I love to hike and camp and fish and hunt and I do so at every opportunity. I have to admit that I am surprised by those who claim to love the land more than I do, or those who claim that the oil and gas industry has or intends to harm the environment. I know otherwise, and I believe most of you do, too.

I am not trying to suggest that just because people like me live and work and play on these lands that we have all the answers. But I do submit that the oil and gas industry has an excellent record of developing petroleum and natural gas resources in a safe and environmentally sensitive manner. There is no single solution to our nation's energy crisis. It will take the development of new resources, conservation, and utilization of renewables, as well.

Today, I am testifying on behalf of the Independent Petroleum Association of America, the National Stripper Well Association, and 32 cooperating State and regional oil and gas associations.

One issue I would like to address right up front is a letter from the Congressional Sportsmen's Caucus which was sent on April 3. The letter expresses concern about industry's views regarding protecting wildlife. On behalf of all independent producers, I would like to set the record straight. We are careful stewards of the land with the greatest respect for the preservation of wildlife. We are sportsmen, so we know that sportsmen pay fees that ensure that wildlife remain in abundance. As well, we conduct our activities in a way that supports wildlife. However, we need to strike a balance, allowing us to continue to provide clean, reliable energy for many decades to come. One activity should not take precedence over the other. They can and they do coexist.

As I understand it, today's hearing will focus on the oil and gas permitting process and delays being experienced with the Bureau of Land Management and the Forest Service. The predominant area where the Federal Government plays a major role in promoting or inhibiting domestic oil and natural gas production are providing access to the natural resource base and providing access to essential capital. Those are two areas that you can help us the most.

The permitting process to explore and develop resources often works to effectively prohibit oil and gas development in these areas, and by that I would like to explain that some people equate leasing with access. They are two very different things, and hopefully we will be able to talk about that more later.

We do have some specific recommendations that we would like to make, which we believe will help facilitate access to the estimated 350 trillion cubic feet (TCF) of natural gas in the Rockies. First off, we would ask that there be support of President Bush's and Secretary Norton's fiscal year 2002 budget pertaining to improvements in land use planning, an inventory of public lands and description of the impediments and restrictions to access and development. We thank you, Madam Chairwoman, for your support, along with Congressman Skeen's, who led the effort in the House for getting this included in EPCA. It is a very, very important aspect and it will allow us to develop some mid- and long-term solutions to our problems.

We also ask for increased funding to accelerate leasing and to process additional drilling permits in the most promising areas.

There is also the National Energy Security Act, S.388. I think that bill contains probably the single most important provision for streamlining. There are so many problems throughout the permitting process, there is no single solution. And so what we are asking is that there be a requirement for energy accountability, that Federal land managers must consider their actions and their inactions and how they affect energy supply. We think this will create an umbrella whereby some balance can be restored to the process.

In conclusion, providing access to the resource base will be critical and requires making some new policy changes. Providing capital, or accessing capital, getting drilling rigs and experienced personnel will also need to be addressed.

We also believe that a cornerstone of any new policies are reasonable, sound energy conservation measures and protection of the environment. Thank you.

Ms. CUBIN. Thank you, Mr. Murphy. Your comments about coexisting with the wildlife, a few years ago, I took several Members of Congress back to Wyoming, Idaho, and Utah and we went onto a gas field. A rabbit ran across about two inches from Newt Gingrich's foot and there were antelope laying in the shadow of one of the tanks that were there on the field. The animals were just everywhere. As a matter of fact, we were accused of roping them and tying them up so that they would be there to show.

[Laughter.]

Ms. CUBIN. But really, your point is well taken. It is so very true that we can develop the minerals in an environmentally sound way. I am like you. I am fifth generation Wyoming. Nobody loves Wyoming more than I do, maybe some people as much, but I will look out for it and I will protect it. So thank you for your testimony.

[The prepared statement of Mr. Murphy follows:]

Statement of Mark B. Murphy, on Behalf of the Independent Petroleum Association of America and the National Stripper Well Association

Madam Chairwoman, members of the committee, I am Mark Murphy, President of Strata Production Company of Roswell, New Mexico. Strata is a small independent oil and gas exploration and production company. Most of our operations are located on Federally managed lands in Southeastern New Mexico. My family has been in the oil and gas business for four (4) generations. We have been involved in projects throughout the United States, especially throughout the Rocky Mountain region. I have been a westerner all of my life. To me, enjoyment of our natural wonders and good stewardship of our lands is a way of life. Commitment to the environment was taught to me by my parents and is being taught, by me, to my children.

I am an avid outdoorsman; I love to hike, camp, fish and hunt and do so at every opportunity. I have to admit that I'm surprised by those who claim to love the land more than I do—or those who claim that the oil and gas industry has or intends to harm the environment. I know otherwise and I believe most of you do too. I'm not trying to suggest that just because people like me live, work and play on these lands that we have all the answers. But, I do submit that the oil and gas industry has an excellent record of developing petroleum and natural gas resources in a safe and environmentally sensitive manner. There is no single solution to our Nation's energy crisis. It will take the development of new resources, conservation, and utilization of renewable sources as well.

On April 3, 2001, the Congressional Sportsman's Caucus, sent Barry Russell, President of IPAA a letter expressing concern that previous testimony presented by Neal Stanley, the current President of the Independent Petroleum Association of Mountain States, was not consistent with a majority of the oil and gas industry who seek to minimize the footprint of their developments—especially the temporary impacts to the wildlife that inhabit the area. On behalf of all independent producers, I would like to set the record straight. We are careful stewards of the land with the greatest respect for the preservation of wildlife. We are sportsmen, so we know that sportsmen pay fees that ensure wildlife remain in abundance. As well, as oil and gas men, we conduct our activities in a way that supports wildlife. However, we need to strike a balance between development and the environment thereby allowing us to continue to provide clean and reliable energy for many decades to come while enjoying the abundance of wildlife. One activity should not take precedence over the other. They can, and do, co-exist. I'll talk more about this later in my testimony.

Today, I am testifying on behalf of the Independent Petroleum Association of America (IPAA), the National Stripper Well Association (NSWA), and 32 cooperating state and regional oil and gas associations. These organizations represent the thousands of independent petroleum and natural gas producers that drill 85 percent of the wells drilled in the United States. This is the segment of the industry that is damaged the most by the lack of a domestic energy policy that recognizes the importance of our own national resources. NSWA represents the small business operators in the petroleum and natural gas industry, producers with "stripper" or marginal wells. These producers are the linchpins to continued development of domestic petroleum and natural gas resources.

As I understand it, today's hearing will focus on the oil and gas permitting process on Federal lands administered by the Bureau of Land Management ("BLM") and the US Forest Service (USFS). This testimony will focus first on several key factors that influence future energy issues. Second, it will describe issues that are specifically related to permitting delays and suggest solutions.

A NATION DEPENDENT ON FOSSIL FUELS

Like it or not, the Nation will be dependent on fossil fuels for the foreseeable future. In particular, petroleum and natural gas currently account for approximately 65 percent of the nation's energy supply—and will continue to be the significant energy source. Natural gas demand, for example, is expected to increase by more than 30 percent over the next decade.

INDEPENDENT PRODUCERS—THE LINCHPIN TO FUTURE DOMESTIC PETROLEUM AND NATURAL GAS

It is important to recognize that the domestic oil and natural gas industry has changed significantly over the last fifteen years. The oil price crisis of the mid-1980's and policy choices made then triggered an irreversible shift in the nature of the domestic industry. Independent producers of both oil and natural gas have grown in their importance, and that trend will continue. Independent producers produce 40 percent of the oil—60 percent in the lower 48 states onshore—and produce 65 percent of the natural gas. They are becoming more active in the offshore, including the deep water areas that have previously been the province of the large integrated companies. At the same time those large companies are now mainly focusing their efforts overseas, in addition to Alaska and the offshore, because they are aiming their investments to seek new and very large fields. Domestic energy policy must recognize this reality.

RECOGNIZING THE ROLE OF THE MARKET

Future energy policy should rely on market forces to the greatest degree possible. For natural gas the market is strong and active. Natural gas supply is essentially North American and overwhelmingly from two countries that rely on private ownership and the free market—the United States and Canada. Currently, exploration and development of natural gas in both countries is being aggressively pursued when the opportunities are there, and can be accessed. In the United States drilling rig counts for natural gas are running at rates that are as high as they have ever been since natural gas drilling was distinguished from petroleum. The principal constraints are finding the capital to invest, getting access to the resource base, finding competent personnel, and obtaining rigs. If the market is allowed to work, it will continue to draw effort to produce this critical resource for domestic consumption.

Oil, however, is a different situation. In making decisions regarding developing domestic petroleum resources, the nature of the world petroleum market must be recognized. Although the United States remains the second or third largest producer of petroleum, it is operating from a mature resource base that makes the cost of production higher than in competitor nations. More importantly, most other significant petroleum producing countries rely on their petroleum sales for their national incomes. For them, petroleum production is not driven by market decisions. Instead, their policies and their production are determined by government decisions. Most are members of OPEC, the Organization of Petroleum Exporting Countries. Several are countries hostile to the United States like Iraq, Libya, and Iran. Even those that are generally supportive of the United States, like Saudi Arabia and Kuwait, are susceptible to unrest from both internal and external forces.

Thus, the market price for petroleum will be largely framed by production decisions driven not by the market, but by the politics of these countries—both by internal issues and global objectives. United States domestic policy decisions must reflect this reality—looking to this factor in taking actions that can affect domestic production and producers. But, more importantly, it must recognize that a healthy domestic oil production industry is also essential for a healthy domestic natural gas industry, because they are inherently intertwined.

For example, the failure of the United States to recognize the need to respond to the low oil prices of 1998–99 resulted in adverse consequences for both oil and natural gas production. The Nation has lost about 10 percent of its domestic oil production—most of which has been made up by imports from Iraq. And, in addition, the tight natural gas supplies this year are partially attributable to the drop in natural gas drilling in 1998–99 when oil prices were low and capital budgets for exploration and production of both oil and natural gas were slashed by producers because drilling under those conditions made no economic sense.

THE FEDERAL ROLE

The predominant areas where the Federal Government plays a major role in promoting or inhibiting domestic oil and natural gas production are: providing access to the natural resource base and providing access to essential capital.

I. ACCESS AND PERMITTING CONSTRAINTS

National energy policy must also recognize the importance accessing the natural resource base. In 1999 the National Petroleum Council in transmitting its Natural Gas study concluded:

The estimated natural gas resource base is adequate to meet this increasing demand for many decades. . . . However, realizing the full potential for natural gas use in the United States will require focus and action on certain critical factors.

Much of the nation's natural gas underlies government-controlled land both offshore and onshore. Policies in these areas have constrained or prohibited access largely based on fears of environmental harm. But, these resources can be developed in an environmentally sound and sensitive manner. The Department of Energy recently released a comprehensive report, Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology, demonstrating that the technology is available. And, it is being employed, when exploration is allowed.

Without policy changes, the Nation may not be able to meet its needs. The NPC study projects demand increasing by over 30 percent during the next fifteen years. This will require not only finding and developing resources to meet this higher demand, but also to replace the current depleting resources. While many analysts are focusing on how much more natural gas demand will grow, it is equally important to recognize what is happening to existing supply. All natural gas wells begin to deplete as soon as they start producing. However, as our technology has improved, we now are able to identify probable reservoirs more effectively. This allows us to find and more efficiently produce smaller fields.

Onshore, the NPC Natural Gas study estimates that development of over 137 TCF of natural gas under government-controlled land in the Rocky Mountains is restricted or prohibited. A recent study by the Energy Information Administration concludes that about 108 TCF are under restriction. Regardless, the amount is significant. An inventory of these resources is underway. It is an important first step. But, it is equally important to understand that access to these resources is limited by more than just moratoria. The constraints differ. Monument and wilderness designations clearly prohibit access to some areas. Regulations like the Forest Service "roadless" policy and prohibitions in the Lewis and Clark National Forest are equally absolute.

At the same time the permitting process to explore and develop resources often works to effectively prohibit access. These constraints range from Federal agencies delaying permits while revising environmental impact statements to habitat management plans overlaying one another thereby prohibiting activity to unreasonable permit requirements that prevent production. There is no single solution to these constraints. What is required is a commitment to assure that government actions are developed with a full recognition of the consequences to natural gas and other energy supplies. IPAA believes that all Federal decisions—new regulations, regulatory guidance, Environmental Impact Statements, Federal land management plans—should identify, at the outset, the implications of the action on energy supply and these implications should be clear to the decision maker. Such an approach does not alter the mandates of the underlying law that is compelling the Federal action, but it would likely result in developing options that would minimize the adverse energy consequences.

While industry has the expertise and technology to develop new reserves we can only utilize these tools if permitted access by the Federal regulatory and management agencies. Allow me to relay some real life situations that I'm aware of in Southern New Mexico.

As previously stated, I understand that the issue of seasonal restrictions on species range has been discussed in previous hearings and follow up correspondence. Let me take this opportunity to clear up any confusion concerning IPAA's position on this important issue. First, we are not aware of any operator who believes that oil and gas exploration should interfere with a critical range of any species. We think appropriate restrictions should address issues identified by scientific and factual investigation. However, industry is concerned that Federal land managers generally impose excessively onerous restrictions over unnecessarily large geographic areas. A case in point involves what are known as Prairie Chickens, which inhabit much of the Great Plains including portions of Southeastern New Mexico. The BLM has imposed a moratorium on operations from April through June of each year.

Without any scientific basis the BLM maintains that field operations disrupt the Prairie Chicken's mating, or as it is referred to "booming", season. My personal field experience leads me to disagree with that assumption but, be that as it may, BLM has imposed this moratorium on approximately 380,000 acres. After industry insisted upon a scientific study BLM has now indicated that it may reduce this area to approximately 196,000 acres. Industry does not object to reasonable restrictions in areas where species are truly being affected by its activities. We do object to unfounded restrictions on overly broad geographic areas.

Another example involves my company, which made a significant oil and gas discovery at the Nash Draw Unit located just east of Carlsbad, New Mexico. We estimate that the field may contain as much as 30 million barrels of oil and 33 BCF of natural gas. Due to surface access restrictions, including the presence of shallow salt water (playa) lakes, we were only able to develop a portion of the reservoir with conventional vertical drilling. Not being able to fully evaluate the extent of the reservoir, we conducted a high resolution 3-D seismic survey. The survey revealed that the best, and probably, the most prolific portion of the reservoir appears to exist outside the area where vertical drilling is allowed. To access this new area requires the drilling of directional wellbores that are then further deviated horizontally. If successful, the application of this known technology, which has yet to be applied in this area, will allow us to fully develop this important new source of petroleum. In addition, if successful, this process could allow development of tens of thousands of acres that are currently off limits to conventional drilling practices.

As we prepared to drill the well we faced what many operators are facing today, unavailability of drilling rigs, of experienced personnel, and of special equipment. Unfortunately, at the same time, our Federally approved drilling permit was due to expire on April 1, 2001. On March 6, 2001 we requested an extension from the BLM. In the alternative, we suggested that we would commence operations by building the necessary road and well pad, and we would set surface conductor pipe in order to prevent the drilling permit from expiring. The BLM office in Roswell told us that, in its opinion, our activities would perpetrate the drilling permit. However, we were also told to check with the Resource Area office, located in Carlsbad, New Mexico, as it was within that office's discretion to approve or disapprove our proposal. Upon checking we were told that our proposal was unacceptable and, that extension could take up to nine (9) months. The alternative, we were told, was to commence drilling operations. Anticipating that a deep rotary rig would be available soon, and that we couldn't move it on location with an expired drilling permit, we commenced drilling with a shallow cable tool rig. Depending upon when the deep rotary rig becomes available we estimate this additional, and in our view, unnecessary cost will total \$25,000 to \$50,000. These are funds that we could have used to develop additional sources of natural gas and oil.

Another example of unnecessary and costly delays by the BLM is in Southeastern New Mexico, northeast of El Paso, Texas. HEYCO, a local operator, initiated exploration work in this rank wildcat area. Areas such as this one must be explored if we are going to meet this country's natural gas demand. HEYCO began exploration and leasing in this area in the early 1980's. In 1996 HEYCO formed a Federal exploratory unit in Otero County. An application to drill was approved by the district office of the BLM in Roswell, New Mexico, in May 1996 and an initial exploratory well was drilled and completed as a producer on August 3, 1997.

Subsequently, HEYCO nominated additional Federal lands for leasing. The BLM declined to offer those lands for public sale. In January 1998, HEYCO applied for additional locations for the purpose of confirming its discovery and to determine the size of gathering system necessary to transport natural gas to an El Paso natural gas transmission line approximately 14 miles to the south.

Eleven months later, HEYCO was informed by the BLM that the drilling permits for the confirmation wells were approved but onerous stipulations conditioned this approval. The BLM also informed HEYCO that, notwithstanding approval to drill, approval to produce was not granted.

The basis of BLM opposition to development of the natural gas resources in the Orogrande Basin has ranged from the suggested presence of an endangered species (the Aplamado Falcon) to the resource value of native grass. One sighting of the falcon was noted during the last 50 years until seven sightings were reported by a BLM employee (with no witnesses) subsequent to the HEYCO discovery.

After some 30 months of study the BLM released, in November 2000, a draft Environmental Impact Statement/Resource Management Plan (EIS/RMP) which, when approved, would become the basis for further oil and gas activity on Federal lands in the Orogrande Basin. The document proposes three alternatives that severely restrict surface use and would render exploration and development of natural gas un-

economic. This planning document could potentially deny access to over I trillion cubic feet of gas equivalents.

BLM would deem this land “accessible.” Why? Because they propose that all wells drilled should be directionally drilled from existing roads. However, given the depth of the target formation, it is physically impossible to drill directional wells in the area. So, when some claim that 95 percent of Federal lands are available for development, they may want to drill a little deeper in to the facts and determine if drilling can physically occur under the stated stipulations. There is a big difference between regulatory defined “access” and practical access. Again, this is why an accurately inventory is needed to determine what lands are truly accessible or not.

What is even more frustrating with public lands management, is that in many cases, the BLM ignores the views of the state and the people who live in the area. This holds true for the Otero County example. Based on recent public hearings, it appears local authorities are very much in support of drilling in this area and state officials were not consulted in the planning process. One quick fix in the area of land access is to turn to the states and the people who live in those states. They need to be part of the process.

In Southwestern Lea County, New Mexico, a local BLM geologist has determined that operators must now set 700 to 800 additional feet of surface casing at an estimated incremental cost of \$30,000 to \$40,000 per well. This changes a practice that has been followed in the drilling of hundreds, if not thousands, of wells in this area. The BLM geologist is apparently concerned that the drilling of wells may contaminate water zones in this area. Such zones have not been proven to exist nor has the Oil Conservation Division, the New Mexico regulatory agency constitutionally mandated to protect ground water, stated a similar concern or even proposed modifying its long-standing surface casing requirements. Here a single individual can, without scientific proof or factual basis, literally cost the industry thousands, if not ultimately millions, of dollars.

It is clear that Federal land managers have not been given clear instructions that they must consider the impact of their actions on energy development. Therefore, each manager is left to assign his or her own value to the importance of energy development on a case-by-case basis. The focus of land management practices has been on process not on what ultimately is in the best interest of our Nation.

There are hundreds and hundreds of these unnecessarily leasing and approval delays up and down the Rockies. To have meaningful “access” to even part of the approximately 350 tcf’s in the Rockies, IPAA recommends the following:

Support of President Bush’s and Secretary Norton’s FY 2002 budget pertaining the following items:

- A \$7.1 million increase to support improvements in the land use planning and accelerate the multi-year process of updating management plans. This is a good first step. The entire planning process needs to be reviewed, including the funding process.
- An \$11.8 million increase for oil and gas programs, including energy resources surveys, Alaska North Slope oil and gas exploration, coal-bed methane permits, and oil and gas inspections.
- A \$3.0 million dollar increase for BLM to work with USGS, the USFS, and the Department of Energy to conduct an inventory of public lands and describe the impediments and restrictions to access and development. Madam Chairwoman, you, along with Chairman Skeen, led the effort in the House for getting this included in EPCA, which was signed into law late last year.
- A \$2.0 million dollar increase to accelerate leasing by 15 percent and to process an additional 1,000 to 2,000 drilling permits in the most promising areas.

With respect to improving onshore land access, support of the following provisions of the National Energy Security Act of 2001, S. 388:

- Section 101 is the single most important section of the S. 388. It requires energy accountability when Federal agencies make decisions affecting energy supply.
- Subsection D—Improvements to Federal Oil and Gas Lease Management—This section contains a number of very important reforms. It allows a state, if willing, to conduct a number of non-environmental oil and gas approvals on behalf of the Federal Government. Time and time again, we see that the state can perform oil and gas activities at a much lower cost and in much more timely fashion than the Federal Government. For decisions remaining with the Federal Government, the bill establishes reasonable timeframes for processing different documents related to oil and gas development. Additionally, it provides adequate funding for environmental documents. Timing is capital and if there are never-ending delays, this capital will be directed overseas or to private lands.
- Section 310—Program on Oil and Gas Royalties In Kind. By giving more tools to the Federal Government to maximize return to the American taxpayer when

taking in kind, the program can be expanded. When royalty in-kind is expanded, more certainty is provided to the government and the oil and gas lessees; thereby making Federal lands more attractive for development.

Encourage the Administration to determine which of these provisions in S. 388 it could implement immediately. Other administrative improvements that the Administration needs to consider include:

- Prohibiting cost recovery regulations that would place unnecessary costs on every facet of the oil and gas program. These costs will further discourage small independent producers from developing onshore Federal lands and are inappropriate given the billions of dollars the oil and gas industry pays each year to the Federal Government in the form of royalties.
- Stopping all regulation rewrite efforts that were mandated by Vice President Gore for the so-called purpose of putting things into "Plain English." The drafts issued of the oil and gas onshore oil and gas regulations during the Clinton Administration proposed significant policy changes and would result in more uncertainty. Specifically, smaller independent producers are concerned about the proposed increase of bonding amounts. Bonds are rarely called for the purpose of reclamation. The vast majority of good operators on Federal land should not be punished for the bad behavior of the few. Enforcement is the key.

ADDITIONAL IPAA ACCESS RECOMMENDATIONS

Overall:

- Provide mechanisms to assure that the energy supply consequences of Federal decisions be identified early in the decision process and made clear to the decision makers.

Onshore:

- Access in the Rockies won't be resolved by a single act. The industry must deal with a mosaic of limitations, while any single limitation may not in itself prevent reservoir development, their collective effort prohibits natural gas and petroleum exploration and production. Regulatory actions need to be undertaken to consider the energy implications of decisions—both individually and collectively.

Offshore:

- IPAA believes it is critical to continue to provide a royalty structure that encourages offshore development. IPAA and others involved in the offshore are working together with MMS and DOE to create a royalty structure that will enhance domestic production.
- Offshore moratoria policies need to be revisited and revised.

H. PROVIDING ACCESS TO ESSENTIAL CAPITAL

Because this hearing is primarily focused on the problem of permitting delays, this testimony will only touch on the capital issue. Because oil and natural gas exploration and production are capital intensive and high-risk operations that must compete for capital against more lucrative investment choices, much of its capital comes from its cash flow. The Federal tax code plays a critical role in determining how much capital will be retained. The Administration and Congress need to enact provisions designed to (1) encourage new production, (2) maintain existing production, and (3) put a "safety net" under the most vulnerable domestic production—marginal wells. Congress has considered a mix of tax reforms that have widespread support. They include provisions to allow expensing of geological and geophysical costs and of delay rental payments that encourage new production, extending the net operating loss time frame and revising percentage depletion that assist both new and existing production, and a countercyclical marginal well tax credit when prices fall to low levels. All of these are programs that independent producers need because their revenues are limited to their production.

Beyond these immediately needed policy changes, new tax policies must be developed to encourage renewed exploration and production needed to meet future demand, particularly for natural gas. In 1999 the National Petroleum Council released its Natural Gas study projecting future demand growth for natural gas and identifying the challenges facing the development of adequate supply. For example, the study concludes that the wells drilled in the United States must effectively double in the next fifteen years to meet the demand increase. Capital expenditures for domestic exploration and production must increase by approximately \$10 billion/year—roughly a third more than today. Generating this additional capital will be a compelling task for the industry. As the National Petroleum Council study states:

While much of the required capital will come from reinvested cashflow, capital from outside the industry is essential to continued growth. To achieve this level of

capital investment, industry must be able to compete with other investment opportunities. This poses a challenge to all sectors of the industry, many of which have historically delivered returns lower than the average reported for Standard and Poors 500 companies.

In fact, as the past year has shown, capital markets have not shifted to supporting the energy sector. For the industry to meet future capital demands—and meet the challenges of supplying the nation’s energy—it will need to increase both its reinvestment of cash flow and the use of outside capital. The role of the tax code will be significant in determining whether additional capital will be available to invest in new exploration and production in order to meet the \$10 billion annual target.

IPAA CAPITAL ACCESS POLICY RECOMMENDATIONS

Near-Term Tax Reforms:

- Allow expensing of geological and geophysical costs and of delay rental payments.
- Allow a 5-year net operating loss carry-back for independent producers.
- Eliminate the net income limitation on percentage depletion for marginal wells and the 65 percent net taxable income limit on percentage depletion.
- Create a counter-cyclical marginal well tax credit.

Other Tax Reforms:

- Modify the Alternative Minimum Tax.
- Create a plow back or drilling incentive.
- Expand the Enhanced Oil Recovery tax credit.

THERE’S NO SHORT-TERM FIX—RECOVERY WILL TAKE TIME

Any realistic future energy policy will take time. There is no simple solution. The popular call for OPEC to “open the spigots” failed to recognize that the low oil prices of 1998–99 reduced capital investment from the upstream industry all over the world. Only Saudi Arabia had any significant excess production capacity and no one knew just how much or whether the oil was of a quality that it could be refined in most refineries. The collateral damage of low oil prices on the natural gas industry is affecting gas supply today and will until the industry recovers. The producing industry lost 65,000 jobs in 1998–99. While about 40 percent of those losses have been recovered, they are not the same skilled workers. If measured by experience level, the employment recovery is far below the numbers. Less obvious, but equally significant, during the low price crisis equipment was cannibalized by operating and support industries who were decimated. It will take time to develop the infrastructure again to deploy new drilling rigs and provide the skilled services that are necessary to rejuvenate the industry.

ADDITIONAL IPAA POLICY RECOMMENDATIONS

- Restructure the Emergency Oil and Gas Loan Program to streamline the application and approval process thereby allowing existing debt to be restructured on a less costly basis and for the creation of new service providers.
- Consider Federal financial instruments like the PADDIE MAC concept that would create a FANNIE MAE-like program to help lower the capital costs to the smaller producers so essential to maintaining the nation’s marginal wells.
- Create initiatives to train oil and natural gas production workforce through existing and new education programs
- Continue Department of Energy Oil Data Transparency initiative to develop more accurate information on worldwide supply and demand.

CONCLUSION

Providing access to the resource base will be critical and requires making some new policy choices with regard to Federal land use. A critical first step is to require agencies to measure and document the impact of their decisions on the development of energy resources.

Overall, attracting capital to fund domestic production under these circumstances will be a continuing challenge. This industry will be competing against other industries offering higher returns for lower risks or even against lower cost foreign energy investment options. The slower the flow of capital, the longer it will take to rebuild and expand the domestic industry.

These two issues are the ones that are particularly dependent on Federal actions, and should be the immediate focus of this Congress and the Administration.

It is time for this country to take its energy supply issues seriously and develop a sound future policy. Certainly, there is room in such a policy for sound energy conservation measures and protection of the environment. But, energy production—particularly petroleum and natural gas—is an essential component that must be included and addressed at once. Independent producers will be a key factor, and the industry stands ready to accomplish our goals, if policies reflect that reality.

Ms. CUBIN. The Chair now recognizes Marc Smith.

**STATEMENT OF MARC W. SMITH, EXECUTIVE DIRECTOR,
INDEPENDENT PETROLEUM ASSOCIATION OF MOUNTAIN
STATES**

Mr. SMITH. Madam Chairwoman, members of the Committee, I am Marc Smith, Executive Director of the Independent Petroleum Association of Mountain States, IPAMS. Today, I am testifying on behalf of IPAMS and Public Lands Advocacy, PLA. I would like to thank this Committee for focusing its attention on oil and gas permitting on Federal lands.

Companies exploring for and developing oil and natural gas rely on Federal land managers to process their permit requests in a timely manner. Without necessary environmental studies, permits, and authorizations, access to drill on Federal land is prohibited. Throughout the gas-rich basins of the Rocky Mountain region, backlogs for permits to drill and rights of way are growing at an alarming rate. Many resource management plans are outdated and revisions or new planning documents are being required before any leasing and development can occur. Staffing is short in many offices and the problem seems to get worse with time.

According to recent surveys by both PLA and IPAMS, applications for permits to drill in the Rocky Mountain region are delayed by as much as seven months in areas where no additional environmental analysis is needed. The average delay is somewhere around a month, which means a process that is mandated to take 30 days often takes in excess of two months. Applications for rights of way are similarly delayed, causing bottlenecks in supply, where gathering lines and supplies cannot be installed. In many cases, APDs and right of ways take several years to approve, pending additional environmental analysis.

For example, in 1997, the BLM Vernal District Office in Utah decided to prepare a combined environmental assessment for all the operating companies who had pending APDs in the area. APDs are applications for permit to drill. Despite efforts by the State Director to fast track the analysis, it has now been 50 months and counting. A final decision is not expected before late fall.

The Vernal example highlights a problem that is pervasive throughout the Rockies. Many land use plans are out of date, causing substantial delays in permitting of new wells until new environmental analysis, usually an environmental impact study, can be completed. Years of inattention to this growing problem have resulted in a situation in which almost every land use plan needs to be updated before additional development can occur. The process of rewriting or amending land use plans has gone from a 1-year process to more than a 3-year average process. At the same time, the average length of usefulness for these land plans has shrunk from 20 years to less than seven. In the Powder River Basin of North-

eastern Wyoming, the land use plan has been updated two times in the last two years and is currently being updated for its third time.

One of the most glaring examples of how excessive planning and environmental analysis have delayed development of natural gas can be seen in the Jack Morrow Hills Resource Area of Southwestern Wyoming, where leasing decisions have been postponed for over 10 years. Land managers must be empowered to do a better job with planning, environmental analysis, and permitting.

Madam Chairman, we thank you for your notable efforts in this area as Chair of this Subcommittee. We especially appreciate your role in the passage of the Energy Policy and Conservation Act during the last Congress. We believe that the public land resource inventory required under EPCA should become a valuable tool to aid Federal and State agencies in their planning efforts.

We do not want to mislead this Committee into believing that if all of our permitting woes were cured today, that all of our problems as an industry would go away. We cannot flip a switch and suddenly turn on all of the supply needed to meet the nation's demand for the next decade. The oil and gas industry requires long lead times to generate drilling prospects, hire personnel, build rigs, pipelines, and other infrastructure needed to expand supply. There is no quick fix for the problems that have accrued over time.

Ten years of low prices coupled with dwindling access to government land and permitting delays have led many producers to abandon the Federal lands in search of more hospitable places to do business. Delays associated with environmental analysis, planning, and permitting are one of the greatest impediments to efficient and economical development of natural gas on Federal land. Delays may differ in severity from basin to basin, but in the basins where supply could most quickly reach markets, delays are often the worst. This trend can and should be reversed.

To improve energy development on Federal lands, land managers must be given clear goals and objectives for energy development on government land. Land managers must be adequately prepared to meet the challenges of increasing demand. Federal and State agencies must work more closely to share information and avoid delays. And land managers must be held accountable for meeting energy development goals.

Madam Chairwoman and members of the Committee, thank you for the opportunity to appear before you today.

Ms. CUBIN. Thank you very much for your testimony, Mr. Smith. [The prepared statement of Mr. Smith follows:]

Statement of Marc W. Smith, on behalf of the Independent Petroleum Association of Mountain States and Public Lands Advocacy

INTRODUCTION

Madam Chairman, members of the committee, I am Marc Smith, Executive Director of the Independent Petroleum Association of Mountain States (IPAMS). Today, I am testifying on behalf of the Independent Petroleum Association of Mountain States (IPAMS), and Public Lands Advocacy (PLA). IPAMS is a non-profit, non-partisan trade association representing over 800 independent oil and gas producers and related service and supply companies in the intermountain west of the United States. Independents, such as the companies IPAMS represent, drill 85 percent of the wells in the U.S., and produce 40 percent of the oil and two-thirds of the natural gas.

PLA is a non-profit organization whose members include major and independent petroleum companies and non-profit trade and professional organizations that have joined together to foster the interests of the oil and gas industry relating to responsible and environmentally sound exploration and development on Federal lands.

At the outset of my testimony, I would like to thank this committee for focusing its attention on oil and gas permitting on Federal lands. Companies exploring for and developing oil and natural gas rely on Federal land managers to process their permit requests in a timely manner. Without the necessary environmental studies, permits, and authorizations, access to drill on Federal lands is prohibited. Land managers have significant control over the amount and rate of energy development in the United States and they exercise this control through the permitting process.

Throughout the gas-rich basins of the Rocky Mountain Region, backlogs for permits to drill and rights-of-way are growing at an alarming rate. Many resource management plans are outdated and revisions or new planning documents are being required before any leasing and development can occur. Staffing is short in many offices and the problem seems to get worse with time. The use of sophisticated mapping tools and other technologies could ameliorate some of these problems, but as with many other issues, addressing agency priorities and goals is a necessary first step.

BACKGROUND

Despite our best conservation efforts, electricity demand in the United States will continue to increase as a function of our growing population and the role of computers in the new economy. The role of natural gas in meeting this new demand cannot be understated. Ninety-five percent of all the new power plants now scheduled to be built will operate on natural gas. Electricity produced from natural gas fired generation will increase from 15 percent to 40 percent by the year 2020. In 1999, the National Petroleum Council forecasted natural gas consumption increasing from 22 trillion cubic feet (TCF) this year to 35 trillion cubic feet (TCF) in 2020.

In the United States, the economic expansion over the past fifteen years has been fueled by low energy prices. These low prices have been good for everyone, except the 500,000 American oil and gas company workers who lost their jobs. Since 1981, employment in the exploration and production sector alone has decreased from 700,000 to 300,000, a decrease of 57 percent. Since the oil price collapse of 1986, the domestic oil and gas business has been in a severe depression. In most areas, wells could not be drilled economically due to the low oil and gas prices. Many companies went broke drilling wells with the hope that higher prices would re-appear in the near term. In short, the oil and gas industry is a small shadow of its former self.

Since there was sufficient energy supply during the past fifteen years, no attention was paid to the problems facing the oil and gas industry. Rules and regulations that further restricted the industry were applied with vigor. In 1981, 89,000 wells were drilled in the U.S. This declined to 19,000 wells in 1999. It is no wonder that our oil production decreased from 8.6 million to 5.8 million barrels per day and our gas production decreased from 19.2 to 18.7 trillion cubic feet per year over this time frame. With these declines in production, and with our expanding economy, it should be no surprise that we consumed our surplus energy capacity, and prices have dramatically increased as a result. This is basic Economics 101, supply and demand.

The oil and gas industry can meet the nation's growing demand for natural gas, but the price of natural gas will be dependent upon a number of factors, most notably, having adequate access to the resource in a timely manner.

PROCESSING PERMITS

A recent influx of permit applications spurred by an increase in commodity prices for natural gas and oil has acted to compound existing permitting problems on public lands.

According to a recent survey done by Public Lands Advocacy (PLA) in Wyoming, agencies that are mandated to complete Application for Permit to Drill (APD) approvals within 30 days often take as long as 60 to 210 days to process permit approvals. Applications for rights-of-way (ROW) are similarly delayed causing bottlenecks in supply where gathering lines and pipelines cannot be installed.

In some cases, APD's and ROW take several years to approve pending additional environmental analysis (required under NEPA). Permitting backlogs have slowed supply to market in most of the active basins throughout the Rockies (Green River, Uintah, Powder, Piceance, San Juan, Williston etc.). Permitting delays may differ in severity from basin to basin, but in the basins where supply could most quickly reach markets, delays are the worst.

To improve the permitting process: land managers must be given clear goals and objectives for energy development on government land; land managers must be adequately prepared to meet the challenges of increasing demand; Federal and state agencies must work more closely to share information and avoid delays; and land managers must be held accountable for the meeting energy development goals.

An internal study by the BLM in 1996 supports these same conclusions. The 1996 study identified factors which contribute to delays in processing APDs. These factors include: conflicting priorities, poor understanding of national APD priority, incomplete APD packages submitted by the operator, conflicting resource demands, excessive or unnecessary NEPA compliance, poor quality or inadequate BLM and FS planning documents, consultation with SHPO, FWS, and other SMAs, unclear directives or guidance, and insufficient agency resources (BLM, 1996).

Exhibit 1 demonstrates the time associated with operating on private land and Federal land. The table shows the timeframe to get a well permitted and drilled. The difference between developing energy on private land and Federal lands is 3 months versus 1–5 years.

IMPORTANCE OF CLEAR GOALS AND OBJECTIVES

With regard to permitting, let me state that we recognize that land managers have a difficult job in many respects. Land managers must follow a sheer morass of regulations, executive orders, instruction memoranda, and other guidance associated with the permitting process. To create significant improvements, most would agree that we should try to clarify and simplify the permitting process. Even so, there are still notable opportunities to improve the permitting process within the existing guidelines.

A natural starting point for improving the permitting process would be to examine the goals and objectives of the agencies involved in permitting. A lack of clear goals and objectives marks an important shortfall in the previous administration's land management policy. There was no clear direction for land managers with respect to energy development on government land. Accordingly, each land manager assigned a relative value to the development of energy with no sense of how his or her actions contributed to or detracted from the nation's energy sustainability as a whole. Mixed messages and a lack of accountability led to a situation in which land managers focus entirely on process with no apparent regard for the outcome. If left unattended, this lack of direction will become even more disastrous.

Like any organization, land management agencies need clear long-term goals and objectives to guide them. Without clear goals and objectives, managers will typically focus on the process rather than the outcome. This gives rise to many unnecessary delays with arbitrary outcomes. In many field offices of the BLM and Forest Service, Federal employees often work with no sense of purpose or urgency with regard to petroleum development on Federal land. Postponing land use decisions through endless analysis may be effective as a risk-averse tactic, but it creates an untenable situation for oil and gas companies operating on Federal lands.

Exhibit 2 is a map showing government lands. The various colors represent the different agencies with surface management responsibility. A map showing the Federal Government's mineral interest in the western United States would encompass an even larger portion of the West than is depicted on this map. Timely permitting of oil and gas wells on BLM and Forest Service Lands is critical to the nation's energy sustainability since a significant portion of the Western United States is managed by these agencies and vast amounts of oil and gas resources underlie these lands.

In the Rocky Mountains, where abundant supplies of natural gas exist, permitting problems pose a significant impediment to the development of natural gas. Long-term sustainable gas production will be achievable only through the orderly development of frontier areas such as the Rockies. Without improvement in the permitting process, industry will not be able to keep pace with growing demand.

ADEQUATE PREPARATION

Adequate preparation is vital if land managers are to meet the needs of current and future generations. Many land use plans are out of date, causing substantial delays in the permitting of new wells until new environmental analysis, usually an environmental impact study, can be completed. Years of inattention to this growing problem have resulted in a situation in which almost every land use plan needs to be updated before additional development can occur. Development delays due to planning are a major factor exacerbating current natural gas shortages.

It should be noted that the process whereby land managers rewrite or amend land use management plans has become extremely cumbersome and needlessly detailed, and has resulted in marked delays in making decisions. In many cases the average

length of time to complete the analysis has gone from less than a year to more than three years. At the same time, the average length of usefulness for these land management plans has shrunk from 20 years to seven years. In the Powder River Basin of Northeastern Wyoming, the land use plan has been updated two times in the last two years and is currently being updated for its third time. One of the most glaring examples of how excessive planning has delayed development of natural gas can be seen in the Jack Morrow Hills Resource Area.

Exhibit 3 is a map of the Jack Morrow Hills Resource Area in southwestern Wyoming. Industry was initially informed that a resource management plan would be required prior to allowing any new leasing to take place. BLM began preparation of the Green River Resource Management Plan (GRRMP) in late 1991. Not only did it take BLM nearly six years to issue a Record of Decision on the GRRMP, it withheld its leasing decision on 80,000 acres of land in an area known as Jack Morrow Hills until a Coordinated Activity Plan (CAP) for leasing could be completed, despite the fact that the area already had over 60 producing wells. Industry was assured that leasing would resume once the CAP was completed.

Despite BLM's further assurance that the Jack Morrow Hills CAP would be completed without delay, the agency didn't even begin scoping on the process until 1998, and at that time the area withheld from leasing was increased to nearly 600,000 acres! Moreover, BLM subsequently promised to complete the analysis by December 1999. This did not occur; the draft environmental impact statement (EIS) wasn't published for public comment until the end of 2000. When the draft EIS was issued, the preferred alternative was for "staged leasing," effectively postponing leasing decisions indefinitely. To further complicate matters, former Interior Secretary Bruce Babbitt directed BLM to reopen the analysis to develop and implement a "conservation" alternative that would prohibit any new leasing in the area.

The map of the Jack Morrow Hills area shows the BLM-managed mineral estate with active oil and gas leases in yellow. Of the 623,000 acres within the red boundary of the Jack Morrow Hills area, there are 239,000 acres of active Federal leases, 36,000 acres that are productive. Also note that within the CAP area, there are 137,890 acres recommended as Wilderness Study Areas.

Land managers have a responsibility to ensure that oil and gas development is not suspended due to perceptions that impacts surpass acceptable levels. For this reason it is critical that agencies routinely monitor activities. It is of particular importance that monitoring be done on an annual basis in areas of heightened activity. Annual monitoring of activities in these areas will give agencies the opportunity to acquire critical information useful for daily and long-term management flexibility. With advance knowledge of when thresholds are being approached, it will be possible for land managers and project proponents to develop acceptable measures to mitigate or reduce potential impacts to an acceptable level. Similarly, the effectiveness of mitigation measures can be tested.

In order for this concept to work, a system for tracking monitoring efforts and results must be developed. In addition, a quality control process needs to be implemented to ensure that resource management objectives are clearly stated and measurable. Measurable management thresholds which, when approached or reached, require a review of existing management practices, must also be identified. An extremely important element of the monitoring effort is an inventory of resource data. Routine monitoring will have the added effect of reducing the time necessary to revise Resource Management Plans.

Another important aspect of agency preparation and readiness involves agency staffing. In some field offices of the BLM, there are adequate staff, but resources are not directed toward energy development, reflecting the manager's priorities. However, most within industry believe BLM field offices are inadequately staffed.

We are encouraged that the BLM is planning to increase its Fluid Minerals Program staff by 32 full time employees this year. But we question whether it is still far short of meeting existing and future needs. To put the staffing issue in perspective, it's worth noting that this program has shrunk from 1,800 employees in the mid 80's to 695 in 2001. If Federal land managers are to partner with an industry that needs to double and triple its activity on Federal lands, staffing must be increased. In addition, the BLM should review its recruiting, training and retention programs so that it can compete with industry to hire skilled workers. Enrollment in petroleum graduate programs is less than half of what it was in the early eighties, and graduates now command a first year salary of up to \$60,000.

Land managers also need to keep pace with new technologies that will allow them to work more efficiently. New geospatial tools can reduce by half the time needed to perform studies. The use of new technologies requires planning, training, and re-thinking the way the agency performs its duties. We are encouraged by initiatives in the Buffalo Field Office of the BLM to use GIS technology in the development

of an Environmental Impact Statement for coal bed methane in the Powder River Basin.

We are hopeful that when the inventory of public lands required by the ENERGY POLICY AND CONSERVATION ACT (EPCA, S. 724, 106th Congress, relating to the Strategic Petroleum Reserve) is completed, the information gathered will become the cornerstone for a comprehensive database that land managers and other agencies will use in decisions relating to planning, leasing, permitting. Madam Chairman, we thank you for your farsightedness and leadership in the drafting and passage of EPCA. The inventory that is undertaken under EPCA should eventually become a tool for collaboration between Federal and state agencies.

INTER AND INTRA-AGENCY COORDINATION

Coordination between the various Federal and state agencies with authority over oil and gas operations must be greatly improved. In the field of ecology, one talks about the cumulative impacts of a Federal action on habitat or the sustainability of an ecosystem. The same approach must be taken when considering the nation's energy policy. The unintended consequences of multiple regulatory changes have crippled responsible oil and gas development in many areas. Producing natural gas on government land is at times threatened or endangered by excessive regulations that result in severe limitations on access to public lands for oil and gas exploration and development. It is often difficult to reconcile the missions of the various agencies when some are multiple-use oriented land management agencies (such as the BLM and USFS) and others are single-purpose agencies (EPA and US Fish and Wildlife Service) whose focus does not address the need for balance in managing Federal lands.

Agencies, such as the Department of Energy and the United States Geological Survey, have valuable information about energy trends that would greatly serve land managers as they plan for future development activity. It seems a poor use of resources and knowledge to not require some coordination at the highest levels between sister agencies. Other agencies, such as the EPA, are notorious for holding up the permitting process at the eleventh hour for additional consultation. Equally troublesome are the individual specialists within the BLM and Forest Service offices (such as archaeologists and wildlife biologists) who view oil and gas activities as peripheral to their core tasks. A recent effort called the Federal Leadership Forum could eventually alleviate eleventh hour delays caused by disputes between agencies, but recent events show that interagency disputes remain a problem.

ACCOUNTABILITY

A final aspect of the permitting process that deserves attention is the concept of accountability. Along with clear goals and objectives, adequate preparation, and coordination, land managers must be held accountable for the results or outcomes of their work. This component, more than any other, is lacking and should be addressed.

In an IPAMS report entitled *Exploring for Reinvention: Dimensions of Customer Satisfaction and Factors Limiting Reinvention Within the Bureau of Land Management's Oil and Gas Program* (May 16, 1999), IPAMS reported its finding on BLM performance and customer satisfaction, using the Agency's stated goals as a measure:

- Testing for perceived customer satisfaction relating to timeliness is important not only because it was identified as an important issue by industry, but also because the Federal Government has issued standards for timely performance. The Customer Service Standards for Natural Resource Management state, "Your applications will be processed in a timely manner.—
- According to a 1995 BLM survey of all resource users, "72 percent of respondents were satisfied that the Bureau of Land Management processed their applications in a timely manner" (Customer Service Standards for Natural Resource Management). This finding varies significantly from the performance ratings given by the oil and gas industry (a subset of natural resource users). The industry's rating of BLM both for overall timeliness in processing documents and timeliness in processing applications revealed poor performance. Approximately 75 percent of industry respondents were not impressed with the BLM's overall performance in processing documents in a timely manner, and 58 percent were dissatisfied with BLM's performance in timely processing of applications.
- One of the key recommendations for producing results in the Federal Government's reinvention plan is to "streamline processes" (Blair House Papers, 1997). According to industry survey results, only six percent of respondents believe the BLM has taken advantage of opportunities to

streamline its operations. Approximately half of industry believes the BLM has not pursued opportunities to streamline operations to reduce costs and time delays.

- The findings of the survey revealed that most of industry perceives the BLM as an agency troubled by inconsistency, contributing to a lower level of overall customer satisfaction. Only 17 percent of the industry respondents were satisfied with the extent to which BLM consistently implemented its policies and regulations. Consistency by government officials is not only a national reinvention standard, but also a procedural trait that appears to be highly valued by members of industry.

As seen in the result above, industry gave the BLM low grades in the areas of document processing, permitting, streamlining, and consistency. Despite industry efforts to make the findings of this report available to the past Secretary of Interior, little has been done to improve agency performance and, in most cases, the problems have increased due to expanded activity on Federal land.

Another example of how the BLM is failing to meet agency goals for permitting timeframes, streamlining, and consistency can be seen in a planning effort that is taking place in northeastern Utah. In 1997 the BLM Vernal District Office decided to prepare a combined Environmental Assessment for all the operating companies (Resource Development Group, or RDG) who had pending APDs in the area. BLM assured the company that once the NEPA analysis was completed, they would get their permits. Combining separate and distinct development projects into one EA is not a common practice within BLM field offices, but industry had little choice but to go along.

In early 1999, ENSR (an independent contractor approved by the Vernal District office that was hired by RDG) issued its Final Environmental Assessment and the BLM issued a Record of Decision (ROD). BLM then issued a Finding of No Significant Impact (FONSI) with several Conditions of Approval (COAs) that were protested by industry and Uinta County.

The State Director determined the proposal was "so controversial" that BLM would have to do a full-blown Environmental Impact Statement (EIS), even though the proposal complied with the existing Resource Management Plan for the area. The APDs had now been delayed for over 20 months, with costs for environmental documentation topping \$250,000. Despite the fact that the State Director "fast-tracked" the EIS, it has now been 50 months and counting. The draft EIS is not expected to be issued before the end of this summer. This will be followed by another three month public comment period before the Final EIS can even be drafted.

CONCLUSION

We don't want to mislead this Committee into believing that if all our permitting woes were cured today that all of our problems as an industry would go away. There is no quick fix to the problems that have accrued as a result of mismanaging development on Federal lands. We cannot flip a switch and suddenly turn on all of the supply needed to meet the nation's demand for the next decade. The oil and gas industry requires relatively long lead times to build rigs, pipelines and other infrastructure needed to expand supply. Ten years of low prices coupled with dwindling access to government land and permitting delays have led many producers to abandon the Rocky Mountain Region in search of more hospitable places to do business.

The uncertainty surrounding exploration and development on Federal land has increased the risk of investment to unacceptable levels for many companies and their investors. And this, in and of itself, is amazing when you consider that many of these pioneering individuals are willing to take a 50 percent or higher risk of drilling a dry hole. In other words, the risk associated with unexpected and costly delays due to environmental studies, permitting delays, and processing of rights-of-way has become the greatest limiting factor in this industry's effort to supply energy to the nation. This trend can and must be reversed. Public lands hold enormous potential to fuel this Nation with clean, reliable, and affordable energy. Accordingly, we should take every necessary action to improve the process that regulates the flow of energy from public lands to communities and businesses.

In closing, I would like to say that industry stands ready to partner with the BLM, Forest Service and Congress to help identify opportunities and strategies for improving the permitting process.

Madam Chairman and members of the committee, thank you for the opportunity to appear before you today.

Exhibit #1 Timeframes for Oil & Gas Drilling – Comparison of State & Federal Land

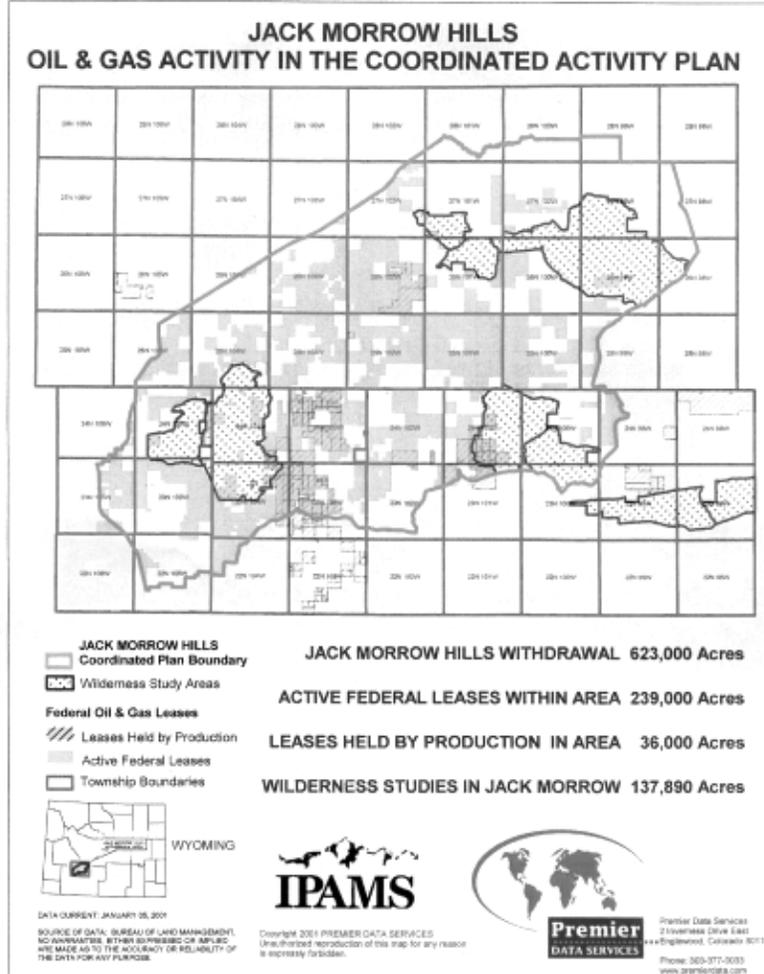
Clear Listing	3-6 months	NA
Negotiate and Acquire Lease	NA	1-3 months
Lease Sale	6 months	NA
Lease Issuance	2 months	NA
NEPA (EIS or EA)	TBD	NA
- Environmental Impact Statement (EIS)	1-3 years	NA
- Environmental Assessment (EA)	6-18 months	NA
Notice of Staking	1 month	NA
Archaeology Weather Restrictions	11/15 thru 4/15	NA
On-Site Inspection with BLM Official	1 month	NA
Wildlife Restrictions	TBD	NA
- Big Game Winter Range	11/15 thru 3/15	NA
- Raptor	2/1 thru 7/31	NA
- Sage Grouse	3/1 thru 7/15	NA
- Prairie Dogs (Black Footed Ferrets)	3/1 thru 9/15	NA
- Mountain Plover	3/15 thru 8/15	NA
- Burrowing Owl	6/1 thru 9/15	NA
Sensitive Resource	TBD	NA
Rights-of Way	3-6 months	2 weeks
No Surface Occupancy	TBD	NA
Permit Issued	3-24 months	3-4 weeks
Total Time from Drilling Idea until 1st Well Drilled	1-5 years	2-4 months

Exhibit #2



Exhibit #3

Exhibit #6



Ms. CUBIN. The Chair now recognizes Mr. Mike Watford, the CEO of Ultra Resources.

**STATEMENT OF MIKE WATFORD, CHIEF EXECUTIVE OFFICER,
ULTRA PETROLEUM CORPORATION**

Mr. WATFORD. Thank you very much. I appreciate the opportunity and the privilege to visit with you today.

I think Ultra Petroleum must be the case study amongst the people visiting with you today. We come at the permitting and the NEPA process from one of a successful perspective, one where it did work, but time was a problem, and the time can make or break many projects.

We, several years ago, identified an opportunity in Southwestern Wyoming near the Jonah field on the Pinedale Anticline. The Jonah field is a very rich natural gas resource. We think the Pinedale Anticline area is equally as rich, probably several times the size of Jonah in terms of estimated ultimate recoveries, and it is an area that Ultra, a very small company with little other cash flow or production, was waiting on this to satisfy this NEPA process and EIS and the ROD in order to move forward to try and grow a successful company.

So we have a situation where we have a concept, we have risk takers putting up capital, putting up time, and standing between this is the daunting task of navigating the National Environmental Policy Act and acquiring this EIS on this 200,000 acre area, which happens to be adjacent or near the Tetons and Yellowstone area, while sharing none of their physical characteristics, but certainly in that area.

And here is what we knew about the prior and existing EISs being conducted in the area at the time. We watched the neighboring Jonah EIS be delayed by over a year over a threatened EPA appeal to the Council on Environmental Quality for unresolved bureaucratic opinions about air quality impacts and appropriate mitigation. We watched the Continental Divide EIS in South Central Wyoming stretch out to become a 5-year process as the land boundaries expanded and the study elements compounded. We watched the Jack Morrow Hills EIS in Wyoming's Red Desert come to a screeching halt at the directive of Secretary Babbitt, to start again with a new conservation-oriented alternative to be analyzed.

Ultra is a small company with no other significant income or operations, as I just mentioned, and we did not have the time to wait one year, let alone five years.

In addition, for the first time in the State of Wyoming, the BLM had exposed a limit on the number of exploratory and developmental wells that could be drilled on our proposed EIS project area by any operator until the EIS was finalized.

We started the Pinedale Anticline EIS process in June 1998. It was finalized, a record of decision issued by July of 2000, some 25 months later, and we were very excited with that. The final document received the highest possible acceptance rating from the EPA. Most notably, the record of decision was not appealed by any environmental organization, local or national, and today, several operators, including Ultra, are actively drilling on the Pinedale Anticline with good success.

The primary problem we have today is permits. Much of the area we have under development is limited, limited access for only six months out of the year. So a 1-month delay may ultimately mean a 1-year delay in terms of drilling wells and getting the natural gas on production to serve this nation's needs.

Let us talk about specifics. How did the BLM, Forest Service land management, and the EPA air permitting processes result in completion of this EIS in only two years? First, the BLM assigned a specific seasoned employee from its district office to be solely dedicated to overseeing the development of this EIS.

Secondly, the EPA and Forest Service were brought into the process early to develop the scope of the document and they continually were engaged in the process throughout its development, which avoided last-minute concerns and rewrites.

Ultra hired a full-time environmental specialist whose sole responsibility was to negotiate and complete the EIS within a 2-year time frame. We also agreed to efforts that were above and beyond the required minimum level of environmental protection, as long as they made sense economically.

The database used, whether it was air quality modeling or habitat impacts, were created in the EIS in the most conservative manner possible in order to avoid the time consuming and often appealable positions of having to defend conclusions questionable to the environmental community. We worked diligently with local environmental groups who have a track record of legally appealing other EISs in the State. We promoted public input into this process, and for the first time in Wyoming, this ROD included an adaptive environmental management process, which has instituted an annual public participation review process designed to ensure that what was predicted in the EIS is, in fact, what occurs.

Let us talk just one brief moment about the areas of disappointment. Ultra voluntarily committed and spent over \$580,000 in collaboration with the Wyoming State Game and Fish Department, University of Wyoming, and the BLM in order to collect and provide important baseline wildlife data for mule deer, prong horn antelope, and sage grass activities prior to significant drilling to later compare against data collected for the same species during intense drilling in order to determine real or perceived impacts.

The Pinedale Anticline field lies downwind from a major grandfathered power plant operated by Pacific Corp. The field also lies within an airshed of concern to the State of Wyoming and is consequently highlighted by input from the Southwest Wyoming Technical Air Forum in order to ensure compliance with the regional haze and visibility requirements of the Clean Air Act.

Given the way the EPA air permitting process works, the EIS document was going to model future projected natural gas industry emissions from this project collectively with current cumulative emissions, and if exceedance were revealed, as they had been in the previous Jonah EIS in the area, expensive mitigation or emission reductions would be imposed on our industry, as the last activity in the door causing the proverbial straw that broke the camel's back, regardless of the significance.

In an effort to ensure no adverse impact to the air quality, Ultra voluntarily invested \$2.5 million to help Pacific Corp. purchase and

install a low NO_x burner on one of its uncontrolled grandfathered units at the Naughton Power Plant in order to significantly reduce the amount of NO_x emissions.

Effectively, we reduced NO_x by about 10,000 tons per year, offsetting at full field development industry emissions of some 1,000 tons per year. The air quality improvements were undeniable, but expensive. Ultra sought from the State of Wyoming and EPA to develop Statewide NO_x emission trading programs and we were unsuccessful in all of that.

Finally, upon achieving a successful completion of the EIS, we face a daily struggle with an overwhelmed and understaffed BLM field office that is responsible for issuing all of the permits. There appears to be no mechanism within the BLM to review the changing workloads and treat the various field offices as business centers, thereby better aligning necessary staff and support needs with the resource activity level.

Thank you very much for your time.

Ms. CUBIN. Thank you very much.

[The prepared statement of Mr. Watford follows:]

**Statement of Michael D. Watford, Chairman, President and
Chief Executive Officer, Ultra Petroleum Corporation**

Ladies and Gentlemen:

Thank you for the privilege of appearing before you today. As the President and CEO of an independent energy company primarily active in Wyoming, I can attest to the tremendous impact that Federal laws and regulations have on our domestic oil and gas industry, particularly in the western states where so much of the land and minerals are owned by the Federal Government. Obtaining a bureaucracy's permission for exploration and development activity is an essential business component to a successful oil and gas company—literally as important as obtaining the best geophysical data, conducting the most precise drilling activity, and completing the wells with the greatest engineering expertise. Complying with governmental regulations is a daily part of our business that can and does have a tremendous impact on the bottom line and I applaud you for taking the time to listen to us today and to learn our perspectives on what works—and what could stand some improvement.

Ultra Petroleum is the quintessential success story of a small, independent oil and gas company. Started by a geophysicist who believed in a play and some investors who took the risk—Ultra came on the industry scene in 1996. The original management was a group of risk-takers, believing far more in the possibility of finding natural gas in a wildcat area than reality was anywhere near ready to bear forth. Standing between this aggressive group of risk-takers and investors and any chance of proving the success of their instincts stood the daunting task of navigating the National Environmental Policy Act (NEPA) and obtaining an Environmental Impact Statement (EIS) that would allow full field exploration and development in a 200,000 acre area that is nearer than any other major oil and gas field to the Teton and Yellowstone National Parks in Wyoming, three wilderness areas within the Bridger-Teton National Forest, and a Class I Airshed as defined by the Clean Air Act Amendments of 1990—all during the last two years of the Clinton/Gore Administration.

We heard all of the horror stories of the EIS process and a Clinton-era, “pro-green” BLM. We watched the neighboring Jonah EIS be delayed by a year over a threatened EPA appeal to the Council on Environmental Quality for unresolved bureaucratic opinions about air quality impacts and appropriate mitigation. We watched the Continental Divide EIS in south-central Wyoming stretch out to become a 5-year process as the land boundaries expanded and the studied elements compounded. We watched the Jack Morrow Hills EIS in Wyoming's Red Desert come to a screeching halt, at the directive of Secretary Babbitt, to start again with a new conservation-oriented alternative to be analyzed. Ultra is a small company with no other significant income or operations and we did not have 1 year—not to mention 5—to be delayed. In addition, for the first time in the State of Wyoming, BLM had imposed a limit on the number of exploratory and developmental wells that could be drilled in our proposed EIS project area, by any operator, until the EIS was final-

ized. When I joined the company through a major management reorganization early in 1999, Ultra's financial future as a company was literally held hostage to the successful—and timely—completion of this EIS.

The Pinedale Anticline EIS process officially began in June 1998. The Final EIS and Record of Decision were issued by the BLM 25 months later in July 2000. The final document received the highest possible acceptance rating from the EPA. Most notably—the Record of Decision was not appealed by any environmental organization—local or national. Today, several operators including Ultra are actively drilling on the Pinedale Anticline with good success and our current geologic interpretations indicate that potential reserves are perhaps as much as 6 TCF. To put this in perspective, 10.2 TCF of reserves are estimated in Wyoming's Powder River Basin in the coalbed methane fields. Over 120 Applications for Permits to Drill (APDs) are pending in the understaffed BLM Pinedale field office as operators rush to prove up their leases in this promising area. Pipeline capacity exists and will be expanded and we are all poised to do our share to contribute to supplying this Nation with its demands for natural gas.

So, specific for your topic today, how did the BLM land management and USFS air permitting processes result in completion of this EIS in just two years, particularly in such a tremendously sensitive resource area including regional air quality concerns and crucial winter range and habitat impacts for mule deer and sage grouse? The answer is not simple and the credit is to be shared by many who took part in setting precedents for doing things differently—and it paid off, as evidenced by the active drilling today. Some things that come to mind:

1. BLM assigned a specific, seasoned employee from its District Office to be solely dedicated to overseeing development of the EIS.

2. EPA and USFS were brought into the process early to develop the scope of the document and they continually were engaged in the process throughout its development which avoided last minute concerns and re-writes.

3. Ultra hired a full-time Environmental Specialist whose sole responsibility was to negotiate and complete the EIS within two years. We also considered and agreed to efforts that were above and beyond the required minimum level of environmental protection, as long as they made sense economically and truly resulted in a quantifiable environmental benefit.

4. The data used—be it air quality modeling or habitat impacts—was treated in the EIS in the most conservative manner possible in order to avoid the time-consuming and often appeal able position of having to defend conclusions questionable to the environmental community.

5. Ultra worked diligently with the local environmental groups who have a track record for legally appealing other EIS's in the state to better understand their concerns and we worked to address these by proposing creative operational alternatives to be considered in the EIS.

6. In addition, the BLM actively promoted the public input intended by NEPA and regularly held field trips and open houses throughout the EIS process—not just during the original scoping period. Although this was not the normal process, it has served to reduce controversy and improve the public's understanding of what is now being allowed.

7. Finally, the ROD required, for the first time in Wyoming, an "Adaptive Environmental Management Process" which has instituted an annual public participation and review process designed to ensure that what was predicted in the EIS (and consequently drove the mitigation requirements) is in fact, what is happening. The Adaptive Management process is intended to provide a framework in which the BLM and the operators will be able to respond to unpredicted environmental concerns or necessary management challenges without having to go back and develop a Supplemental EIS.

Through flexibility and many precedent setting decisions, the BLM (and the Forest Service to a lesser extent regarding its responsibilities for air quality), worked through their respective NEPA permitting processes to provide timely permission to the natural gas industry for 700 producing wells in a 200,000 acre project area. We believe the Pinedale Anticline EIS is a success story that illustrates how Federal permitting agencies can work with the states, industry and environmentalists within the confines of NEPA without causing unduly delays to our business activities. Would I like to have started drilling two years earlier? You bet. Would I like the permits to drill be guaranteed within the 30 day regulatory period instead of the 60 day reality? Yes! But today, the reality is that Ultra and several other operators are now successfully doing our business which is drilling natural gas wells, we are earning a return on our invested capital and time, and we are working with the bureaucratic agencies and the public in a minimally conflictive, controversial environment. The local affected community fully participated in the NEPA process and

acknowledged our right to be there and to drill wells. And we have acknowledged our responsibility to ensure that this is done in the most prudent manner with the least possible impact on the co-existing natural resources and other multiple use activities in the area including ranching, hunting, recreating and tourism.

Lest I paint too rosy of a picture, don't let me leave you today with the impression that it was always smooth and that all is well in the hinterlands with no room for improvement in the NEPA and permitting process for oil and gas activities. Nor let me leave you with the impression that Ultra was not disappointed on several occasions by bureaucratic inflexibilities and regulatory restrictions that we believe hindered the process and missed some important precedent setting opportunities for future EIS across the nation.

- Ultra voluntarily committed and spent over \$580,000 in collaboration with the Wyoming State Game and Fish Department, the University of Wyoming, and the BLM in order to collect and provide important baseline wildlife data for mule deer, pronghorn antelope and sage grouse activities prior to significant drilling activity, to later compare against data collected for the same species during intense drilling in order to determine real or perceived impacts—and formulate appropriate mitigation. Although appreciative, and it was widely recognized that the data provided was invaluable to enhancing management of these species, the BLM was unable to give us any regulatory incentives or subsequent APD permitting “credit” for this investment.
- The Pinedale Anticline field lies downwind from a major, grand fathered power plant operated by PacifiCorp. The Anticline field also lies within an airshed of concern to the State of Wyoming and consequently highlighted by input from the “Southwest Wyoming Technical Air Forum” in order to ensure compliance with the Regional Haze and Visibility requirements of the Clean Air Act. Given the way the USFS air permitting process works, the EIS document was going to model future projected natural gas industry emissions from this project collectively with current cumulative emissions and if exceedances were revealed—as they had been in the previous Jonah EIS in the area—expensive mitigation or emission reductions would be imposed on our industry, as the last activity in the door causing the proverbial straw that broke the camel's back, regardless of the insignificance of our emissions when compared to other regional, grand-fathered sources. This is the issue that delayed a previous EIS by almost a year because of concern by the EPA. In an effort to ensure NO ADVERSE IMPACT to the air quality of the area, Ultra voluntarily invested \$2.5 million to help PacifiCorp purchase and install a low-NO_x burner on one of its uncontrolled, grand fathered units at the Naughton Power Plant in order to significantly reduce the real amount of NO_x emissions upwind that would adversely affect the air quality models for the Pinedale Anticline project. Because of this investment, we not only avoided procedural EIS delays from concerns over any adverse modeling results, but we actually cleaned up the airshed for the Wind River Mountains by about 2,000 less tons of NO_x emissions from the Naughton power plant per year. The NO_x emissions reductions and consequent air quality improvements are undeniable, but expensive. Ultra sought from the State of Wyoming and the EPA to develop a statewide NO_x emissions trading program, similar to that which is utilized nationwide for control of Acid Rain, which would have allowed us to recoup part of our investment from the other producers and pipelines in the area as they actually created emissions. The idea was new, precedent setting, and regulatory difficult—and neither the State nor EPA created a program to accomplish this, thereby missing the opportunity to incentivize similar emission reduction behavior from other industries or, at a minimum, even allow us economic reward.
- At the beginning of the EIS, after discussions with the BLM and the Wyoming State Game & Fish Department, we realized that some of the greatest benefits to the affected wildlife would come from protecting habitat in areas away from our project area—namely other critical wintering areas or riparian areas that were under a high probability of sub-division which would have a greater adverse impact on the species than oil and gas development. We offered to institute an “off-site” mitigation fund for use by the BLM and Wyoming Game & Fish to actually spend industry dollars, on a per well drilled basis, to mitigate impacts to affected species in the locations that would render the greatest environmental bang for the buck, even though those locations may be outside of the EIS project area boundary (which was, in fact, determined more by the relevant leasehold and assumed geology situations than by any ecosystem considerations). The BLM informed us Interior's Solicitor Leshy issued an opinion prohibiting any off-site mitigation—regardless of the potential environmental ben-

efit. This seemed like a great missed opportunity to us, for no reason but regulatory inflexibility.

- Finally, the data gathered during the EIS process showed that reducing disturbance to the surface and the habitat was going to be one of the best ways to minimize the significant impacts from our operations. Drilling several wells directionally from the same well pad was analyzed as one possible option to accomplish this. The cost of directional drilling is significantly higher than a traditional well bore, and directional drilling has traditionally been used by the industry for offshore operations or to access a location that for whatever reason cannot be reached by a straight hole from the top. To my knowledge, there is no EIS in the State of Wyoming that would require expensive directional drilling solely to minimize surface disturbance. A few years earlier, the BLM had initiated a "Green River Basin Advisory Committee" process, referred to as GRBAC, which considered various scenarios for streamlining NEPA, including using royalty reductions for incentives. We sought a legal interpretation to determine if royalty rate reductions could be applied to the Pinedale Anticline circumstances. Under the authority of the Mineral Leasing Act, 30 U.S.C. Section 209 (1988), the Secretary of the Interior is authorized to grant reductions in production royalties as follows:

"The Secretary of the Interior, for the purpose of encouraging the greatest recovery of . . . oil, gas . . . and in the interest of conservation of natural resources (emphasis added) is authorized to . . . reduce the rental, or minimum royalty on an entire leasehold, or on any tract or portion thereof segregated for royalty purposes, whenever in his judgment it is necessary to do so in order to promote development, or whenever in his judgment the leases cannot be successfully operated under the terms therein provided."

We made a case to the BLM that this authority could be applied to the Pinedale Anticline to incentivize directional drilling which, under normal regulatory circumstances, was significantly more expensive and significantly more risky from a technical feasibility standpoint. Again, the BLM informed us that Solicitor Leshy had issued an opinion prohibiting the department's ability to utilize an eco-royalty relief program in such a way to incentivize such environmental protection. [Let me add, in the ROD the BLM did not hesitate to impose a command and control type restriction on drilling in certain critical areas on the Pinedale Anticline and did, in fact, require directional drilling from limited surface locations OR required the utilization of centralized production facilities in order to minimize surface disturbance. This decision is the subject of an appeal of the EIS by one of the operators. Although the appeal has not delayed the ROD or subsequent industry activity, we believe the BLM could have avoided this costly legal battle by being receptive to an eco-royalty relief provision or some other creative incentive program that would reward companies for doing unconventional practices in the name of environmental protection, instead of mandating them.]

- And finally, upon achieving the successful completion of this EIS, we face the daily struggle with an overwhelmed and under-staffed BLM field office that is responsible for issuing all of the permits to drill in this highly productive area. First of all, there no mechanism in the permitting process to incentivize a company to strive for environmental protection beyond standard operating practices, thereby missing an opportunity to encourage companies to ease or expedite the process. And additionally, there appears to be no mechanism within the BLM to review the changing work loads and treat the various field offices as "cost centers", thereby better aligning the necessary staff and support needs with the resource activity level. Consequently, offices like that in Pinedale, have been barraged by industry activity in this newly developing area, but suffer from being grossly understaffed to handle the new oil and gas activity, not to manage continuing with its other responsibilities for managing grazing allotments and recreational use. Subcommittees like this one today look for causes for procedural delays from NEPA and other environmental regulations when we believe many such delays could be adequately addressed by more flexible and appropriate staffing in the active field offices. I would like to encourage this subcommittee to work with your colleagues on the Appropriations Committee to ensure that the Pinedale BLM Field office is more adequately staffed and funded in this fiscal year and into the foreseeable future to ensure that they can continue timely issuance of permits pursuant to the FEIS/ROD.

In summary, it has been Ultra Petroleum's experience that the National Environmental Policy Act works, albeit in a frustrating manner at times, and does provide for effective and sufficient resource extraction at the same time the environment is protected and public participation is allowed. It has also been Ultra's experience

that the idea of capitalizing on or creating incentives in the marketplace or within the bureaucracy to better ease or quicken the NEPA process is grossly neglected by the Federal Government and that valuable opportunities for improvement are foregone.

I thank you for your time today and look forward to any questions you may have. I also offer my time in the future and that of my staff to work closely with you and your staffs to pursue any of the market-based incentives that I have highlighted here or any others that could be possibly institutionalized to ease NEPA and the Federal permitting process for the oil and gas industry.

Ms. CUBIN. I just want to start off with a couple things for the record. My observation has been through the years that I have been in Congress that the land managers are trying to do their job in the best way they can, considering the constraints that they have to work under. That would be money, that would be number of personnel, and that would be conflicting direction from different levels of the Interior Department, and that would be conflicting orders from different laws or different rules and regulations.

So I have come to think that Congress has helped contribute to this problem through the last few years because we would be angry at the administration or at the BLM or at the Forest Service because they were not permitting or they were not moving at a pace that we thought they ought to do, so instead of helping them do that by getting them more resources, because we did not like some of the decisions, we would actually do less. I think the situation we are in now makes that clear.

So I just want to say, Mr. Culp, that there are things I know that the BLM could have done, would have done, should have done, but there is plenty of blame to go around, if that is what someone wants to do. Frankly, I think we need to, as I said earlier, just regroup and figure out how we can help the land managers process those APDs.

Another thing I wanted to say, Mr. Culp, in your written testimony on page four, you stated that Wyoming's annual production of natural gas from Federal lands is nearly 500 million cubic feet. But in truth, it was well over 577 billion, and I just wanted that correction made for the record because I would not want anyone to think Wyoming was like Wisconsin or Arizona or something like that, or Idaho.

[Laughter.]

Ms. CUBIN. So anyway, I just wanted to make sure it was with your permission that that was changed in the record or noted in the record.

Mr. CULP. Absolutely, Madam Chairman.

Ms. CUBIN. This is to you, Mr. Culp. What bottlenecks in the oil and gas leasing and permitting process do you see that are caused by conflicting requirements of different laws? Are there any that come to mind quickly?

Mr. CULP. I am not sure the term "conflicting requirements" exactly fits, but there are certainly a lot of laws that we have to reconcile with each other and comply with in the process of approving permits.

Ms. CUBIN. And there is not, is there, from office to office a standard by which you all know this is how we do that? Like in my office, we have instructions for when this situation arises, this

is how we proceed. What I have observed from BLM, one office to another, is that one office can interpret something exactly the opposite of the way another office interprets it and there are no guidelines that are standardized.

Mr. CULP. We do have manuals and handbooks for how we do land use planning, and how we process APDs. But I am sure you are right. There are different interpretations that can occur from field office to field office. We try to avoid that and work hard at avoiding it, but it does happen sometimes.

Ms. CUBIN. Does the BLM have any national guidelines, then, on how regional managers should handle prospective oil and gas lands in the planning process? Are those published guidelines?

Mr. CULP. Yes, there are.

Ms. CUBIN. And so if there are differences, then those are based on interpretation of the field office, is that right? Would you say that was right?

Mr. CULP. They are based on interpretation. One of the things we need to gear back up is an evaluation program of our field operations that has fallen by the wayside the last few years, and that is one of the ways where we work at consistent interpretation of the manuals and the handbooks. We are working on that today.

Ms. CUBIN. But we did increase the appropriation for permitting in the Powder River Basin to the BLM last year and the President's budget, as you said, asks for an additional \$15 million this year. Is that enough?

Mr. CULP. This—it is such a volatile—

Ms. CUBIN. Well, we have to do it to the generals and admirals all the time, so go ahead.

Mr. CULP. It is such a volatile situation, so I would almost have to say it changes day to day, but it significantly addresses our shortfall.

Ms. CUBIN. Frankly, you probably could not spend it all at one time anyway. I know in Wyoming last year that appropriation—I mean, the people were not in place. The things were not in place to get those permits done quickly anyway, so it did turn out to be enough money by the time it was all stretched out.

This is my last question. We continue to hear claims that 95 percent of the public lands in the Rocky Mountain Basin are available for oil and gas leasing. Given your position with the BLM, do you agree with that?

Mr. CULP. I believe strongly that we need to go through the EPCA process and analyze basin by basin the resources and the planning decisions that have been made to really answer that question. Personally, I doubt that it is 95 percent.

Ms. CUBIN. I completely agree with you, but we have heard that over and over. Again, you are right. We need to arm ourselves with information, not opinions, and hopefully—did you say \$2 million of that \$15 million would be dedicated to that purpose?

Mr. CULP. It is \$3 million.

Ms. CUBIN. Oh, \$3 million. Okay. And that is separate from the \$15 million?

Mr. CULP. It is part of the \$15 million.

Ms. CUBIN. Okay. Thank you very much. I have other questions, too, that I would like to ask other members of the panel, and maybe we can have a second round of questions.

The Chair now recognizes Mr. Kind.

Mr. KIND. Thank you, Madam Chair. I appreciate your testimony here today.

Mr. Culp, let me start with you. Apparently, there was a public lands advocacy survey that indicated it could take as long as 60 to 120 days before the application for permit to drill is approved by BLM. Does that sound accurate to you?

Mr. CULP. As I indicated, our standard is 30 days. We meet the standard about 25 percent of the time. I wish it was better. Regarding 60 to 120 days, I have not done a survey recently, but it is probably reasonably accurate for an average.

Mr. KIND. Clarify me if I am wrong, but in recent years, has the number of applications, the permits that BLM has issued on public lands, has that, in fact, gone up?

Mr. CULP. It has gone up.

Mr. KIND. And just for the record, to clarify it, you do not have any type of inherent hostility at BLM against oil and gas interests on public lands, do you?

Mr. CULP. No. As others have indicated, we have a multiple use responsibility and we have to reconcile various laws.

Mr. KIND. That is right.

Mr. CULP. But we do not have any built-in hostility toward oil and gas.

Mr. KIND. And help me understand your decision making process in regards to the granting of permits and how long it is. I assume there are competing interests that you have to take into consideration. I get the sense that we are not talking about a very centralized decision making process, but you have to weigh a lot of different interests, some different regulations and concerns into consideration before you make a determination, is that correct?

Mr. CULP. That is correct, and it is very much a local process. You are really talking about the land use planning process.

Mr. KIND. So you are going to be including some local officials, sportsmen's groups, for instance, fishing groups, for instance, in regards to the application process?

Mr. CULP. A very open public process with lots of public input.

Mr. KIND. All right. Do you have any recommendations on how, if at all, that can be streamlined, other than just with the addition of resources to you in the application process?

Mr. CULP. There are several things that we can do and we are—

Mr. KIND. Without, of course, losing the local input that you currently have to take under consideration.

Mr. CULP. Right. I think we are doing much better than we did, say, two, three, four years ago. We are coordinating with other Federal agencies such as EPA and our friends from the Forest Service and the Fish and Wildlife Service. But there is room for much more improvement in that coordination. It is an issue like Endangered Species Act consultation, or a similar coordination issue that causes us to miss the 30-day processing time for applications to drill. So across agencies, there is lots of work to be done.

Mr. KIND. Would you recommend here today against the use of or against the practice of consulting with local officials and outside groups in regards to the application process, or do you think that is important to be retained?

Mr. CULP. I think it is very important to retain the public input to all of our processes.

Mr. KIND. Mr. Murphy, let me turn to you briefly. I stepped out just at the moment when you were addressing the concern that many of us shared within the Sportsmen's Caucus in Congress, of course, the April 3, 2001, letter that we had submitted to Mr. Neal Stanley of the Independent Petroleum Association of Mountain States and Mr. Barry Russell of the Independent Petroleum Association of America in light of their testimony that was given on March 7 of this year, implying, if not overtly stating, that it was Mr. Stanley's belief that hunting is a cause of high energy prices and that consumers somehow subsidize elk hunters. Naturally, that got the attention of myself, as a member of the Sportsmen's Caucus, and 250 of my colleagues in this Congress in regards to that testimony and the basis of that testimony.

You touched upon it briefly, but let me give you an opportunity to expand upon that a little bit. Certainly I, and I know others in the Sportsmen's Caucus, do not want to believe that the oil and gas industry is inherently in conflict with these sports groups that exist throughout the country. Correct me if I am wrong, but hopefully, there is a way that your interest and the interest of sports groups can coexist in light of sometimes the competing interests at stake on these public lands.

Mr. MURPHY. Thank you for that question. I could not agree with you more. As a matter of act, many of us in the oil and gas industry are sportsmen. I did not hear the precise testimony. I have heard a lot about it and I have read the letter.

I think that probably, like most things, it comes as a result of a real misunderstanding and the best way for me to illustrate that is a situation that has happened down in Southeastern New Mexico, one that I am familiar with. We have down there what is known as prairie chickens. They are a type of grouse, basically. From April through June, field activities are limited. The BLM had proposed that these field activities would be limited to an area of about 380,000 acres, I believe was the initial number. That is a lot of land anywhere.

The industry got very concerned about that and we said, where is the scientific and factual data that supports this limitation on activity, and quite frankly, it was pretty sketchy. So we worked with BLM and we came up with a study done by some very professional biologists, I believe it was Auburn University was involved, and that area was actually then whittled down to about 190,000 acres.

All I am trying to say here is that the oil and industry does not have, in my view, any problem with restrictions on critical range of any species. What we are concerned about is that in some cases, there are very onerous restrictions over very broad areas, and just as this Committee has supported the land inventory, these sorts of things need to be looked at in a scientific and factual way on the ground on a case-by-case basis.

I do believe that we can coexist. I spent a lot of my time in the field. When I was not sitting on a rig, I was hunting quail. I was enjoying the area around the rig activity. So I know from personal experience that these activities can coexist.

Mr. KIND. I thank you for your response. Perhaps you could help get a response from Mr. Russell and Mr. Stanley for clarification. It is a little unfair for me to be asking you to respond to testimony that they gave, but we are still awaiting their response to our letter.

Madam Chair, I would like to offer at this time, without objection, a copy of the April 3 letter that we have just been talking about, for the record.

Ms. CUBIN. Without objection.
[The letter follows:]

Congress of the United States

Washington, DC 20515

April 3, 2001

Mr. Neal Stanley
Independent Petroleum Association of Mountain States
518 17th Street, Suite 620
Denver, CO 80202

Mr. Barry Russell
Independent Petroleum Association of America
101 16th Street, NW
Washington, DC 20036

Dear Sirs:

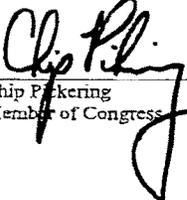
On behalf of the more than 250 House Members of the Congressional Sportsmen's Caucus, we are writing regarding your joint testimony to the House Resources Committee on March 7, 2001.

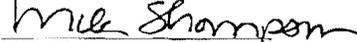
Specifically, we are concerned by Mr. Stanley's testimony that hunting is a cause of high-energy prices and that consumers somehow "subsidize elk hunters". We disagree with this position and hope that Mr. Stanley's views do not represent the views of your associations or the companies you each represent. It is our understanding that the vast majority of the oil and gas industry seek to minimize the footprint of their developments – especially the temporary impacts to the wildlife that inhabit the area. Mr. Stanley's position runs counter to this understanding and certainly warrants clarification.

Of all the hindrances to development, it is disappointing that Mr. Stanley chose to single out the Nation's 65 million sportsmen. In fact, the idea that sportsmen don't pay their own way is incorrect. Since 1937, sportsmen have paid an excise tax on the products we use. This fund has been used to ensure that wildlife remain in abundance – to the benefit of all Americans.

We appreciate the United States' current energy situation and the need for domestic development. However, a balance between development and the environment is critical and we hope this balance is something our domestic energy producers are interested in achieving.

Sincerely,

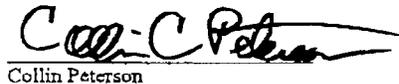

Chip Pickering
Member of Congress


Mike Thompson
Member of Congress


Robin Hayes
Member of Congress


David Phelps
Member of Congress


Don Young
Member of Congress


Collin Peterson
Member of Congress


Saxby Chambliss
Member of Congress

Mr. MURPHY. I would be happy to follow up and encourage that response as quickly as possible.

Mr. KIND. Thank you.

Ms. CUBIN. The Chair now recognizes Mr. Otter.

Mr. OTTER. Thank you, Madam Chair. For the record, Madam Chair, I do have an opening statement, but so that I can get on with the questioning and perhaps be enlightened even more beyond these gentlemen's testimony, I would like to offer this for the record, without objection.

Ms. CUBIN. Without objection.

Mr. OTTER. Thank you, Madam Chairman.

Mr. Watford, I am very impressed with your ability to raise money in the climate, I guess it was 1997, is that right, that you first started raising money for exploration?

Mr. WATFORD. Nineteen-ninety-six, 1997, yes, sir. When we did not enjoy near the price that we enjoy today on natural gas. And I say that because I am an old gas and oil driller from the Kentucky, Tennessee, and Ohio, southern Ohio region, about 500 wells. But we only went to the Knox zone, so we are not talking about the kind of depths that I am sure that you folks go to.

It was my experience that unless you either married the boss's daughter or inherited a fortune from your in-laws or your grandfather, it was pretty tough to raise money for exploration unless there was a known body of gas or oil. Would you briefly go through the process of how you got folks to provide you the investment capital to file the EIS statements and to comply with all the rules and regulations that NEPA and BLM and everybody else had?

Mr. WATFORD. I will try. The oil and gas business tends to be as very high-risk business, especially on the exploration side. Ultra was a small cap company that was started up with speculative capital, folks who were willing to invest capital either assuming probably no return or hundreds of percent rate of return.

Mr. OTTER. Was there any tax incentive for that?

Mr. WATFORD. Yes, there are, with the intangible drilling costs, yes.

Mr. OTTER. Okay.

Mr. WATFORD. The company went through—I mean, I actually did not join Ultra until early 1999, so there were some folks prior to me that raised the initial capital and then I have raised subsequent capital going forward, and the company was able to put together a unique land base in southwestern Wyoming, basically on a concept that some geologists and geophysicists had who had been involved with a much larger company years before and had watched the Jonah field. And the Jonah field came into its own, I do not know, four years ago or so, in a very unique way, but the success of Jonah just helped amplify, I guess, the concept that the anticline was more of the same and that you had to have people who had invested in oil and gas before, who had had some success and could understand the geology of the field to put up some risk dollars to give you a chance to succeed.

Now, Ultra almost failed. Ultra literally almost failed in early 1999, and that is part of the reason why the board brought me in, to help fix it. It was literally a train wreck and we got it turned

around, changed out a lot of staff, had to sell some assets off to save it, et cetera, but we got it moving forward.

But the final issues that we had to have were a couple of regulatory items, one of which was this Pinedale Anticline EIS, that if it had gone on for five years, Ultra would have failed and you would not have any drilling going on up there today and you would not have that natural gas resource coming that is largely going to California to serve some of their problems with the power industry.

So it was a lot of confidence people had in the upside, that once you were able to gain access and do your exploration drilling, that you come behind it with the developmental drilling.

Mr. OTTER. Thank you, sir.

Mr. Murphy, as I explained my very short tenure as a wildcatter, I actually found out that finding the reserve and then drilling it, getting into it and producing the well was only part of it. Then it was getting onto a pipeline, and then, of course, you also had to get somebody to buy it, and if you could not find somebody to buy it, you capped the well and you waited until either the price adjusted or the supply ran down. So we ended up with a lot of capped wells. I suspect most of those are gone today.

But my question of Mr. Watford and of you really goes to the heart of inadvertently, the extreme environmentalists and folks who want to shut down this speculation and this exploration are, in fact, creating one of the greatest monopolies for the big oil companies, the big gas companies, because they are the only ones that can really afford all these regulations, all these EIS statements, unless you are a good enough talker, like Mr. Watford, in order to talk pretty hard-earned bucks into filing a government report. Would you agree or disagree with that, Mr. Murphy, and if so, why?

Mr. MURPHY. Well, I think I certainly would agree with it. I think what you find is that, first off, the independents are the wildcatters. We drill 85 percent of the wells. The typical cycle that you have seen so often is that a guy like me and my colleagues will risk a lot to go out and test a feature that we have an idea. Someone told me one time that oil is discovered in the minds of men and women, and that is, I think, where you start from, and it is a long road after that.

I think one of the reasons that you hear so much from independents about the frustration that we feel is that we are small business owners, and like every small business owner, you have to wear a lot of hats. In other words, I have to know something about accounting and land and geology and engineering and permitting and everything else, so I see the breadth of this process from beginning to end, from cradle to grave.

I think in the larger companies, there is probably not as big of a sense of frustration because they have people doing segments of it, and so there is very few individuals that experience this whole process of, many times, years and years and lots of money that goes into it. And so that is probably why you hear from independents, because we see that and it is an incredibly frustrating process.

Mr. OTTER. I guess just a yes or no, Madam Chairman, if I might, just a yes or no to this one. Would you agree or disagree

that the process, the regulatory process, as extensive and as tough as it is, has a tendency to keep players out of that market?

Mr. MURPHY. Absolutely.

Mr. OTTER. Thank you.

Ms. CUBIN. Thank you. The Chair now recognizes Mr. Inslee.

Mr. INSLEE. Thank you, Madam Chair.

First, I want to thank Mr. Murphy for having the courage to come before a House Committee from Roswell, New Mexico, and expect the penetrating questions about our secret programs at the area near Roswell, but we will defer our questions in honor of your attendance here today.

[Laughter.]

Mr. INSLEE. I would like to ask a question to any of the members of the panel of any of your participation—I would like to ask about any of your participation in the administration's energy task force that is chaired by the Vice President. Let me ask first, have any of you been involved in any of the meetings with the task force chaired by the Vice President?

Mr. CULP. The quick answer for me is no. However, there was a wide net put out for ideas for submission to the task force, and BLM people, including myself, did provide ideas. Larry?

Mr. GADT. We did the same. The Forest Service, USDA, we did the same through the same group that Pete referred to. I have not gotten that high up to be at that other level yet, but we have been participating with Interior in sharing those ideas.

Ms. CUBIN. Mr. Gadt, would you identify yourself for the record, and I will give you extra time, Jay.

Mr. GADT. I am sorry. I am Larry Gadt. I am the Director of Minerals and Geology for the U.S. Forest Service, USDA.

Mr. INSLEE. Mr. Gadt, could you tell us what recommendations were made to the task force regarding the roadless policy by the Forest Service?

Mr. GADT. I am sorry, Congressman. Would you repeat the latter part of that?

Mr. INSLEE. Could you tell us what recommendations to the task force were made by the Forest Service in regard to the roadless area policy?

Mr. GADT. The recommendations of the task force that I was involved with, there were many administration initiatives that are going to be taken as part of that. I do not have privy to what the final recommendations are going to be, but we did provide input as to recent regulatory and administrative policies that have taken place that were going to be laid on the table.

Mr. INSLEE. Let me ask, just tell us what knowledge you have as to what recommendations were made, if any, regarding the roadless policy. In other words, did the Forest Service suggest that the roadless policy be abandoned? Did they suggest it be modified? Did they suggest it be maintained in the form proposed by the Clinton administration? What could you tell us about that?

Mr. GADT. I was not asked that question in that way. I was asked what recent initiatives had been taken on that the administration was going to look at. I do not know if I am getting your question, but we did not recommend one way or another about the

roadless policy, but it was one of the initiatives that would be reviewed.

Mr. INSLEE. What did you say about it? If you did not recommend, what did you say about it?

Mr. GADT. Well, they have not asked me yet, but just that it is being reviewed.

Mr. INSLEE. Okay. I am really sorry, maybe I did not understand, but I would assume the White House asked for some input from the Forest Service about the roadless policy, and if that is true, what did the Forest Service tell the White House or the task force?

Mr. GADT. Well, to the best of my knowledge, the Forest Service has not told the White House anything. We did recommend that the roadless policy be one of the initiatives that the energy policy group take a look at.

Mr. INSLEE. And did they ask for your recommendation whether it should be implemented or not?

Mr. GADT. To date, they have not.

Mr. INSLEE. So they have got an energy task force, but they never asked the Forest Service whether that should be implemented, is that your understanding?

Mr. GADT. They have not asked me. I do not know about the rest of the Forest Service, but no one has asked me yet as a representative on that policy group.

Mr. INSLEE. Okay. The other three gentlemen, have you participated in the task force, or anyone from your organization, to your knowledge? They are all shaking their heads in the negative.

I wanted to ask, and I am trying to remember which gentleman talked about this issue—Mr. Murphy, I was reading one of your testimonies and someone was talking about incentives for royalty reduction to incentivize certain environmentally friendly activity. Was that Mr. Murphy? I was reading—

Mr. MURPHY. It might be contained in my written testimony. I do not believe I—

Mr. INSLEE. Yes—

Mr. WATFORD. I think it was in my written testimony.

Mr. INSLEE. Mr. Watford?

Mr. WATFORD. Yes.

Mr. INSLEE. Yes, I believe it was. I am sorry. In your written testimony, as I understand it, you were suggesting that the Federal agencies consider creating royalty reduction programs to incentivize certain environmentally friendly activity and drilling. For instance, you suggested that there be a royalty reduction to consider asking producers to have one directional well instead of several non-directional wells, if I understand what you were saying.

As I understand it, that would essentially be asking the taxpayers to pay the producer to do something in an environmentally friendly way, and I just wonder, does that not really put the shoe on the wrong foot as far as responsibility for acting in an environmentally responsible manner? In other words, why should that be the taxpayers' burden? Why should it not be the applicant's for the permit to do the drilling?

Mr. WATFORD. I think the concept here was looking for alternative ways to, at the end of the day, end up with a balanced use

of public lands which would allow the natural resources to be developed and also allow all the environmental issues to be addressed and everyone to live easily with each other.

So the intent, whether it is that example or not, is to create incentives where it is not just a, you can do this or you cannot do that, where there is some gray area where, hey, if we can also include it in the written testimony, I think was the concept that was offered to the BLM and the Forest Service at the time, that we will pay an additional fee per well that you can use to mitigate environmental issues elsewhere and we will pay that here in this area where we are going to drill wells and you can have some cash here to go do something else, because one of the issues is fencing in the areas and subdivisions being built and things like that, closer to the parks, not necessarily where we are. But we are trying to come up with additional ways that they could have cash to help in the overall mitigation and resolution of some of the larger environmental issues and not just try and be totally black and white on this small amount of land that we are dealing with.

So I think that is my issue in a larger scheme, more so than whether royalty relief itself is the issue. I think the concept was, are there other incentives that we can bring to bear here that, at the end of the day, is win-win for both sides.

Mr. INSLEE. Thank you. Thank you, Madam Chair.

Ms. CUBIN. Thank you. The Chair now recognizes Mr. Flake.

Mr. FLAKE. Thank you, Madam Chair, and thank you, panelists. I suspected I was sitting next to a former wildcatter when he uttered the phrase, "the price of gas that we now enjoy." I grew up on a ranch and we used to enjoy high beef prices, but we do not enjoy the price of gas.

But on that subject, Mr. Culp, could you tell me, is there any process, given the high price of gas at the moment and the need that we have to explore, is there any fast track authority or is there any process by which to expedite requests? Has that been proposed, perhaps, by your organization, or is that contemplated at all?

Mr. CULP. There are a series of complicated statutory and regulatory requirements that we have to meet in order to lease and to approve applications to drill, and a lot of that is irreducible in terms of its complexity and time frames.

I think there are a number of things that we can work on and can improve, particularly, as I said before, coordination between the Federal agencies where we have to work together on things like the Endangered Species Act consultations. There are business processes where we are trying to make improvements. Electronic processing of permits was put in place last year. We are not doing that everywhere yet, but we would like to expand it all over the country.

Mr. FLAKE. Along those lines, you mentioned that the major holdup is interagency cooperation, when you have to go to other agencies. Could legislation be fashioned or an executive order or whatever else that requires or sets time limits on other agencies responding to your request during these times, or how can we expedite it?

Mr. CULP. Certainly, that is something that could be done, yes.

Mr. FLAKE. Others have suggested that in States, where States are already conducting evaluations of permitting on private land or State trust land or what not, that you could possibly contract some of the valuation out. Is that a possibility?

Mr. CULP. That is something we have the authority to do. It is complicated, however, because most States are organized differently than the Federal Government. Most States have an organization like an oil and gas commission that does not have the range of multiple use management responsibilities that we have. So if you are going to contract out to a State, we would probably need to work out an agreement with the Department of Natural Resources and the oil and gas commission to do all the kinds of work that we do. It is a possibility.

Mr. FLAKE. But that is possible?

Mr. CULP. Yes.

Mr. FLAKE. Thank you.

Ms. CUBIN. Since this hearing actually was scheduled from two to four, I would like to start a second round of questions.

Mr. Watford, how soon do you believe that staff additions are necessary in the Pinedale office to avoid unnecessary delays?

Mr. WATFORD. Yesterday would be the answer in one word.

Ms. CUBIN. Yesterday would be good.

Mr. WATFORD. But the real issue here is, even with the EIS behind us and record of decision allowing up to 700 surface locations on the Pinedale Anticline, that is 200,000 acres, some two-thirds of the Anticline acreage is still limited to access during the winter-time. It is set aside as winter protection for big game coming back down. And so we are really restricted, and we have sage grass restrictions in another part of the acreage.

So, effectively, it is almost a May-June to end of November drilling season for two-thirds of this acreage, which is very difficult to try and get in and drill a significant number of wells, get them completed, get the pipelines built, get them on production to serve our growing energy needs here. So when we get a delay of 30 or 60 or 120 days, as someone mentioned before, then it throws us a year later in terms of access and the ability to drill the well and get the gas on. So, again, time is killing us. You run your economics and you just add another year there for lack of access and lack of drilling.

So anything we could do to expedite that, if it is just whether you subcontracted it to the State of Wyoming, as was suggested over here, or whether you have a team of folks you can put in there just for the summer, because again, in this unique situation, it is a summertime activity, effectively, summer and fall where we can get in. So if you could bring in a team and just address the APDs and permits for 90 days during the summer, that could help the staff on the ground now, that would certainly be very helpful to us.

Ms. CUBIN. Well, you can see how BLM is between a rock and a hard place in trying to get the employees necessary, to get the people on the ground necessary to do it. And while you would think the Pinedale Anticline ought to have the priority, move people over there, well, they might think that over in Powder River Basin, as well. So the labor pool or the pool of people of experts is, I would think, limited, and Mr. Culp, help me with that.

What sort of a time are you having even with the increased appropriations hiring people to do these jobs, and have you guys thought out of the box, like Mr. Flake suggested, some ways to speed this up other than just hiring more BLM employees?

Mr. CULP. I think you put your finger on a big part of the problem. It is not just Pinedale. It is Pinedale and Buffalo and Rock Springs and other offices in Wyoming. So our ability to move people around to solve the problem is limited. We just need more people, as you said, and that is why the budget for next year is really important. Even in terms of an option like contracting with the State, it would still be a budget question as to how that would be covered.

So I think the principal thing we need is support for the budget increase so that we can deal with it. It is a bigger workload, and frankly, we do not see it going away. We see it being there for at least the next 10 years.

Ms. CUBIN. Yes. I suspect that is very true. As far as support for the appropriations, I have made the point to the White House, maybe unnecessarily, and to the Vice President that the Interior Department is really one of the only agencies in government that actually generates any sort of significant revenues, and so it is a good investment to get the people on the ground, to get the permitting done in areas that we already know can be explored and produced.

I wanted to ask Mr. Watford, as well, do you think that all the other operators in the Pinedale Anticline share your viewpoint that the EIS was a success story?

Mr. WATFORD. Well, I think they agree that it was a success story. I do not think they all agree with the manner in which we went about it. I think the fact that we tried to go above and beyond the minimal standards to comply with the environmental laws probably alienated some of them. We definitely had a goal. I mean, we are driven by what the long-term benefit was to the company and—

Ms. CUBIN. That is what I was going to say. Here you are, producing.

Mr. WATFORD. That is right.

Ms. CUBIN. So there you go. Would you expand for me on what the adaptive management process is and how it works?

Mr. WATFORD. Why do you not answer, Laurie.

Ms. CUBIN. Would you please identify yourself?

Ms. GOODMAN. Yes. My name is Laurie Goodman and I am an environmental specialist for Ultra Resources. The adaptive environmental management process is actually state of the art in the Pinedale Anticline. It came to the BLM from the Environmental Protection Agency as an example or a prototype to see how it would work, and what it basically is is a very public process. It is a group of task groups and working groups assigned that draws together State officials, county officials, the road and bridge workers, the environmentalists, the industry people, and we meet regularly to set up processes to determine if the impacts that were estimated in the environmental impact statement are actually what is happening.

So it is an on-the-ground, on-time process to keep that in check, whereas typically, once you finish an EIS, unless some other major action happens, there is no way to go back and—

Ms. CUBIN. It is over.

Ms. GOODMAN. —and reassess the goals, and this was something that EPA thought would give the public an extra degree of comfort in being able to say, yes, we did get it right. From the industry's point of view, where we oftentimes think that the required mitigation is more severe than will ultimately be required, the adaptive management process is a tool to keep that in check, also, and say if, in fact, the amount of drilling that we estimated is not really that high, the area did not turn out to be quite what it was, so perhaps the additional environmental protection required will not be necessary, we could go back through the adaptive management process and make some adjustments that way.

I can tell you, Congresswoman, it ultimately, I think, is viewed to have great success. It is pretty bumpy right now. It is a public process that everybody is just getting used to and is taking a huge amount of resource time of the BLM staff, and it is one more reason why I think when people want to go above and beyond in the environmental process, the agencies have to be given staff support to be able to do that, because this requires them to have monthly meetings, it requires them to do field trips, it requires them to send out e-mails, all things that are above and beyond their normal workload.

Ms. CUBIN. Well, I think that demonstrates that if politicians will stop politicizing the issue and everybody agree to a few things, we are in an energy crisis, we have fuel supply in the lower 48 that we could use, that we need to get to it in the most environmentally friendly way we can, and we need to get it out. If we could all work together to do that, I think this adaptive management policy, it is another way to do it and I would just hope that, as politicians and as leaders, that we try to get our country out of this crisis as quickly as possible instead of arguing over whether 60 million acres of roadless is appropriate or whether it is not. Let us just look at the facts and get with it.

The Chair now recognizes Mr. Kind.

Mr. KIND. Thank you, Madam Chair.

Mr. Culp, getting back to you, BLM is anticipating what, approximately 2,600 APDs for the current fiscal year?

Mr. CULP. Correct.

Mr. KIND. And that is roughly an average of the six prior years, but in 2002, you are anticipating a significant jump, up to 4,100 APDs, is that correct?

Mr. CULP. That is correct.

Mr. KIND. And you are taking some steps right now in order to analyze whatever impediments might exist in regards to accessing these energy resources on public lands or trying to streamline the process. But in light of such a significant short-term increase in APDs that you are contending with, do you have a high degree of confidence you are going to be able to address this huge plus-up in APDs that is coming in the next year or so, given the fact that you are already facing a backlog on a lot of these applications today?

Mr. CULP. We feel reasonably confident that we can achieve those numbers. An awful lot of the 4,100 that you mentioned are APDs in the Powder River Basin that we have not been able to process because we have not yet completed the environmental

work. In March we completed an environmental analysis for drainage that is going to allow us to process up to 2,500 more APDs there in the Basin. We are also working on ways to group the APDs in pods to simplify the process. So, yes, I feel pretty confident that we will be able to hit the 4,100 with the budget for next year.

Mr. KIND. We are not going to be facing an even more significant backlog or a delay in the application process?

Mr. CULP. You have to remember that this is a very rapidly developing situation. Just two years ago, we were talking about using the Powder River Basin as an example, a cumulative development of 5,000 coal bed methane wells. That has jumped up now to 50,000 wells that we are examining in the new EIS plan amendment process. So it has been a very, very volatile situation. And so for me to say that we will not have another backlog develop is pretty tough in this environment.

Mr. KIND. Thank you. That is all I have, Madam Chair. Thank you.

Ms. CUBIN. Thank you. Mr. Otter?

Mr. OTTER. Thank you, Madam Chairman. Mr. Gadt, I would like to follow up on a couple of questions that Mr. Inslee asked you relative to your involvement with the present administration and any questions or input that you may have been asked for by the administration on the energy policy and the public lands involvement in solving part of our energy policy.

In your normal course of work, would you be required to provide input to the administration for this kind of an effort to resolve the energy policy?

Mr. GADT. Yes.

Mr. OTTER. And did you file an official report with the Clinton administration when they established both the monuments and the roadless areas?

Mr. GADT. Well, I will differentiate between the monuments and the roadless areas. On the monuments, no.

Mr. OTTER. You did not on the monuments?

Mr. GADT. We did not file an official report. If you are referring to me as the staff director, no, I did not on the—

Mr. OTTER. And what about the roadless?

Mr. GADT. And on the roadless, I had members of my staff that served on the EIS team providing input during that whole process for—I had two staff members that served on that, a professional geologist and a support staff person.

Mr. OTTER. And was this official input? Was this written testimonies and reports?

Mr. GADT. We provided written information. We had a geologist on the team and he provided written information to address the different issues that the roadless team was dealing with. Did I answer that question?

Mr. OTTER. What I was trying to pursue there is that it would seem like there was a lot being made of the fact that here you are, quote-unquote, the “professional” on public lands for this specific thing, and yet, this administration had not asked you for your input. I wanted to know, prior to establishing 50-some million acres and locking up some 50-some million acres of roadless area away from potential production, possibly, how much input did you have

into that in the 90-day period that was provided, and if you did have that input, Madam Chairman, I would ask that that information be made available to this Committee.

Mr. GADT. Congressman, we provided information to the team regarding the location and the quantity of our estimates of the minerals and energy resources that was associated with the areas that we knew of where there were resources there on the ground. We provided that information to the analysis team, made them aware of where the location was, our estimates of the quantity, that we worked with USGS and DOE on those estimates, and we made that aware to the team and the policy makers made the decision that the other values that were associated with those areas—and I am giving you my interpretation—the policy makers made the decision that the values that were in excess of what it is that we portrayed to them the values of the resources.

Mr. OTTER. Would you draw that same opinion today?

Mr. GADT. On the values?

Mr. OTTER. Three years ago, we did not have an energy crisis.

Mr. GADT. Okay. On the values?

Mr. OTTER. Yes.

Mr. GADT. I will continue to encourage—I did the previous administration and I will do the same with this administration—I will encourage them strongly to consider those values in making whatever revisions, if any, are made, to make sure that that consideration is done. And I will continue to insist it. I do not know how else to do that as a professional.

Mr. OTTER. I understand that, and I appreciate your professionalism in answering those questions.

Mr. Culp, I am interested in response to Mr. Flake's question about the State maybe not having the same mission or the same direction in making its decisions about its land use. When Idaho became the 43rd star on that flag, we got Section 16 and 36—out of every 36 square miles—we got two sections, and so we have a lot of public lands in Idaho.

Mr. CULP. Right.

Mr. OTTER. I would hope that the BLM would share the opinion that the State of Idaho cares just as much about its lands as the BLM might care about the land that it oversees. Did you have some question in your mind about whether we have recreation and we have habitat and we have all other kinds of activities on our State lands and we share, I think, the same enthusiasm for maintaining these lands in the best and highest possible use and environmental status as possible?

Mr. CULP. I certainly would not dispute that. I was simply making the point that organizations in some States are considerably different, particularly where there is an oil and gas commission and a separate Department of Natural Resources. Our mission is multiple use management, whereas these oil and gas commissions tend to have a mission of optimizing development of the oil and gas resource only and do not have a responsibility to look out for other resource values.

So what we would probably have to do, is look to a combination of State agencies that would have similar responsibilities to ours and could do that kind of work. But I did not at all mean to ques-

tion whether States have the same mission for their public lands that we have for the Federal public lands.

Mr. OTTER. Thank you, sir. Thank you, Madam Chairwoman.

Ms. CUBIN. Thank you.

I have one last question, because I forgot to ask it before. I am talking about, again, thinking out of the box to try to get things accomplished that under other circumstances we could not get accomplished. Entrance fees at the national parks are now 80 percent dedicated to the park in which they were collected. It used to be that all of the fees for the parks went into the general fund and then we appropriated the money back to the parks. But now 80 percent of that goes to the parks where it is generated.

Is it feasible, and would you—I would like to ask all of you this question—would you support a process whereby to help solve the problem of personnel in the BLM offices where a portion of the Federal royalty collected would be dedicated to that office? Do you see what I am asking? In other words, where the most work is and where the most production comes, then that would go to that office instead of to an office where there was not so much activity.

I do not know if that is reasonable with the BLM. It has worked out very well with the Park Service. Big parks like Yellowstone had very expensive backlog maintenance. They needed new sewer systems. They needed major maintenance projects, and because they cost so much money, they were always pushed to the back so we could get a whole bunch of little things off the books.

Just offhand, if each one of you would give me your opinion on that sort of a possibility.

Mr. MURPHY. Congresswoman, I think it is an excellent idea, and I think it not only would help with some of the practical problems, but it would also help to provide an incentive for local offices to consider energy development and a very real way of funding that development. I think that is one of the major problems in the system, is that the managers have only so many resources and they have to listen to the priorities that are being expressed from above. I think one of our frustrations is that it does not seem to us on the ground that energy has been one of those priorities and we think it should be.

Quickly making one other point is that State transfer, the concept of transferring some of these things to the State, is not a new idea. It has been around for a number of years. We think it ought to be done legislatively for a number of reasons. We tried to encourage the last administration to at least begin that process. It never really got any traction. It does not necessarily mean that all of the functions have to be transferred to the State. Most of the NEPA process is on the surface. The downhole approval process can be accomplished very well by the State agencies that do it on State lands and fee lands, and like the State, the oil conservation division. So it does not have to be an all or nothing thing. It seems to me that you could break that process up and transfer some of it, at least initially, and see how that works.

Ms. CUBIN. Thank you.

Mr. WATFORD. I think your idea is outstanding. I think the concept of basically making each field office a business center sort of mirrors a business model and then that helps them prioritize what

they are doing. Now, I naturally would prioritize in economics. They are not going to be able to do that all the time to meet all their full range of responsibilities. But clearly, if they had a sense of the revenue that the effort their team was putting forth was creating on behalf of their area and the Nation at large, it would be very beneficial and it will help them allocate resources and see what they are doing and drive the accountability down.

I think the answer that Laurie gave you for your question about that ongoing management process is the same sort of concept, one of ongoing accountability, and that is what you need to have.

Ms. CUBIN. Mr. Culp? There you are, you poor thing.

[Laughter.]

Mr. CULP. Well, this is an idea where I cannot speak for the administration.

Ms. CUBIN. Right. I understand that.

Mr. CULP. But I would point out that we would be back to the complication of how mineral revenues are distributed. Basically, the formula requires that half are returned to the States.

Ms. CUBIN. Right, and this would be out of the Federal share.

Mr. CULP. There clearly would be an issue if we tried to tap the State share.

Ms. CUBIN. Thank you.

Mr. GADT. Madam Chairman, I would like to respond to that.

Ms. CUBIN. Please.

Mr. GADT. I will reiterate what Pete said. I will not speak for the administration here, but I am very enthused about that. That is something that has been in my mind for a couple years and we are in the process now of trying to get the skills that I need available to me to kind of craft that to see what it is that we can do with that and start running that through some traplines to see what we can do with that. But I think that is a wonderful opportunity to do things, like the workforce on the ground as well as do some reclamation work and I think that would be good for the communities. Most of those are rural communities where these resources are at. So I am very enthusiastic about that.

Ms. CUBIN. I would ask you, then, that we will be in touch. We would like to coordinate some efforts on that. I do not know if it will work. No, Mr. Smith, you are not escaping this. But it is worth looking into and I would just encourage all of you to submit any other ideas that you have. We all have the same goal and let us figure out how to get there.

Mr. Smith, would you like to answer?

Mr. SMITH. Sure. I was just going to respond, and without saying what everyone else has said, I think that just simply throwing more money at it is not going to solve the problem. I think there are huge structural issues within the BLM that need to be addressed before money starts being thrown at field offices.

For one, staffing reflects field offices' priorities. A great deal of power is vested in the field office. State offices have very little influence over what the field offices do in many ways. I think until field offices and the agency as a whole have some clear direction with regards to oil and gas development, that just simply throwing more money at it could result in bigger problems than what we currently have.

As a point of reference, though, in the mid-1980's, there were 1,800 oil and gas professionals in BLM's fluid minerals program. Today, there are 695. That represents a very small fraction of the whole agency, and so I think before a funding device is figured out, the bigger picture of how you reshape the organization to use new technologies, to use new processes is the first step.

Ms. CUBIN. Thank you. And were you not the lucky one that Mr. Kind did not ask to repudiate what the President of IPAMS said about wildlife mitigation.

Mr. SMITH. I would have really enjoyed responding to that, actually.

[Laughter.]

Ms. CUBIN. Next time, speak up.

[Laughter.]

Ms. CUBIN. We sincerely thank you for your time. We thank you for your testimony and your thoughtful answers to questions. I am sure that the members will have some written questions that they would like to submit and we would ask you if you would not mind doing that.

This hearing is adjourned.

[Whereupon, at 3:36 p.m., the Subcommittee was adjourned.]

[Additional material supplied for the record follows:]

Excerpts from: "Exploring for Reinvention: Dimensions of Customer Satisfaction and Factors Limiting Reinvention within The Bureau of Land Management's Oil and Gas Program" by Marc W. Smith, Doctoral Student, University of Colorado at Denver; Director of Public Lands and Environment, Independent Petroleum Association of Mountain States

Abstract

The management of public lands in the United States has seen a major paradigm shift in the last decade. Conservation, in the traditional utilitarian sense, has been replaced by preservation as the underlying normative assumption guiding policy decisions. In light of this shift, scholars have noticed changes in management priorities, which some claim have displaced the quality of services to the more traditional users of public land (such as oil and gas companies). However, under the same Administration which ushered in many of these policy changes for land use, a new management directive was also issued to improve customer service for all users of public lands. This movement was of course, the "Reinventing Government" movement embodied in Vice President Al Gore's National Performance Review.

The purpose of this study is to ask: Has reinvention occurred in the Bureau of Land Management's Oil and Gas program? And, if not, why? The specific objectives of this study threefold: 1) to gauge the perceived level of customer satisfaction for oil and gas companies operating on Bureau of Land Management (BLM) managed public lands; 2) to explore how various dimensions of customer service affect overall customer service; and 3) to identify factors limiting reinvention. In the first (I) section, a brief background is provided on the BLM effort to reinvent its oil and gas program. Section II examines the shortcomings of the BLM's reinvention through analysis of a regional survey of oil and gas companies that operate in 13 western states. In this section, dimensions of customer satisfaction (Cultural, Structural, Procedural, Ethical, and Environmental) are explored to identify the relationship between customer-identified issues (elements of customer satisfaction) and overall customer satisfaction. Section III focuses on internal and external factors limiting reinvention. Following this discussion, some conclusions are offered in Section IV. Section V provides suggestion for reviving the reinvention effort.

Conclusion

The findings of this study point to both barriers and possibilities for reinvention. A frank discussion of these barriers and opportunities is a necessary starting point and one that should include the customers and citizens the BLM serves. The Agency is faced with factors both inside (internal) and outside (external) of its control that

must be addressed before reinvention can occur. It is also faced with an increasingly complicated mission that demands a thoughtful strategy and leadership to steer.

Many possible conclusions could explain the low customer satisfaction ratings the BLM received on its reinvention effort. The most obvious explanation is that shifts in policy away from multiple use and toward preservation and recreation have impacted the quality of service provided to the oil and gas industry. Changing priorities and reallocation of resources can be seen affecting timeliness, costs of environmental documentation and other aspects of the oil and gas program. Budget burdens have been addressed in reinvention, but not through increased efficiency. Instead, reinvention has meant a transfer of financial burdens from the agency to the industry intended to be served. It is difficult to overlook these changes, especially when new programs for species recovery, wilderness study, and recreation continue to take up larger portions of Interior's budget. If this direction continues unaltered, the oil and gas program may become increasingly understaffed, existing only to fund preservation activities through the mechanism of cost recovery.

Internal and external factors limiting reinvention are difficult to tease apart; for every issue identified in this report, both sets of factors were effecting customer satisfaction. A BLM report (1996) describing the barriers to timely processing of APDs [Application for Permit to Drill] is good example of issues (internal and external) that the Agency determined were limiting its ability to meet customer expectations.

Issues were identified by the Team which result in delays in processing APDs. These include conflicting priorities, poor understanding of national APD priority, incomplete APD packages submitted by the operator, conflicting resource demands, excessive or unnecessary National Environmental Policy Act compliance, poor quality or inadequate BLM and Forest Service planning documents, consultation with State Historic Preservation Offices, Fish and Wildlife Service, and other Surface Management Agencies, unclear directives or guidance, and insufficient agency resources (Bureau of Land Management, 1996).

External factors that limit reinvention and lower customer satisfaction represent a good starting point for agency/industry partnering. Solutions to regulatory hurdles such FACA [Federal Administrative Committees Act] and the Government Performance Review Act should be sought jointly by industry and the Agency. External factors relating to multiple stakeholders with diverse interests should be the object of ongoing discussion; policies should stress improving performance and ensuring equity. Executive leadership must provide direction and accountability for the problems that arise when multiple agencies with multiple jurisdictions are steering in opposite directions.

In addition to external factors, the BLM has the opportunity to create improvements within many of the internal factors influencing customer satisfaction. Explaining how these factors interact with one another is a natural starting point for understanding the significance of the findings.

The survey showed that dimensions of customer satisfaction can be understood in layers (visualize an onion), with the core functioning as a nucleus and each successive layer interacting with the ones preceding and following it. Therefore, while each layer could be examined and treated individually, a more holistic approach is preferable for understanding the internal dimensions of customer satisfaction.

The core dimension of customer satisfaction is ethical in nature. The ethical dimension can influence the cultural, structural and procedural dimension. Ethical issues such as fair and unbiased treatment of customers influence customer satisfaction directly, but also indirectly, as ethical issues become widely apparent in the cultural dimension. It is in the organizational culture that ethical traits become manifest in attitudinal traits such as helpfulness and attentiveness to complaints. Ultimately, the energy to produce structural and procedural change comes from an ethical core that emphasizes right conduct. This study suggests that BLM's reinvention would profit from placing greater effort upon enhancing the capacity of Federal employees to attend to their special ethical responsibilities. The benefit from this effort, as Zajac (1997) points out, is that "right conduct in government translates into well-founded respect for, and trust of government on the part of the citizenry."

As an integral part of customer satisfaction, findings related to the cultural dimension are also worth mentioning. Although this study showed that BLM employees are perceived as professional, they do not receive the same high marks on helpfulness and attentiveness to complaints. It is evident that the BLM would see important gains in customer satisfaction by internally reinforcing the importance of being helpful and attentive to complaints.

Structurally, the agency is perceived as understaffed and failing to provide choices of services and means of delivery. Budgetary constraints explain why new services have not been widely noticed. However, offering various means of delivery is not bound to the same restraints and one must question why these efforts have not been

more actively pursued. Creative delivery mechanisms such as outsourcing and insourcing have been shown to improve efficiency while alleviating budgetary concerns (Osborne and Gaebler, 1992). Examples of creative delivery mechanisms, including the transfer of duplicative functions (such as permitting and inspection and enforcement) to states, has been shown to be cost effective (Fretwell, 1998).

Within the procedural dimension of customer satisfaction, timeliness of document processing and cost containment in environmental documentation are prominent issues lowering customer satisfaction. Both issues show promise for improvement through streamlining operations. A third issue, consistency, exposes a paradox inherent to reinvention. On one hand, industry seeks improved performance from BLM employees. The proposed solution to improving performance, as put forth in reinvention, is empowerment of employees. But, if more empowered employees are likely to produce decisions less consistent with one another (between state and field offices), reinvention has created one problem in fixing another. Therefore, the unpredictability and uncertainty associated with reinvention and empowerment causes both optimism and anxiety. Even so, efforts to improve timeliness, reduce costs to customers, and streamline operations should eventually have a positive impact on customer satisfaction.

In literally all dimensions of customer satisfaction, the BLM would be hard pressed to justify such low ratings unless a different framework of logic were applied, such as the notion that government is sufficiently different from business that principles of management (including the use of customer satisfaction as a standard) which apply to business are not transferable to government. Before concluding, it may be useful to address this often-stated contention.

Some would claim that it is disingenuous for the NPR [National Performance Review] to offer private sector models for the development and reform of public organizations (Mintzberg, 1996). Indeed, some would say that if government is to function as business, it would logically be forced to neglect many of the special purposes for which it was created. Since many governmental activities relating to public lands can be seen as a response to failure and indifference on the part of the private sector, why would government want to hold itself to this standard if the basic assumptions fail to capture government's role?

While these arguments hold merit, customer satisfaction is no less useful in measuring government's performance in meeting the expectations of those citizens it directly serves. Using customer satisfaction as a basis for assessing performance outputs does not negate the argument that the private sector does not face the range of demands and expectations placed upon government to advance the common good. Neither does it imply that citizens not directly served, especially in the case of public lands, have any less right to expect performance from government. Those who use customer service ratings must recognize the reality that there is generally no wholly adequate private sector substitute for bureaucracy and, at best, solutions should be advanced which improve government performance while promoting the public good. While the public good is difficult to define and impossible to measure, measuring customer satisfaction is a recognized and well-developed means of assessing performance. As Kettl (1994) explains, "if empowering employees is the 'how' of the NPR, customer service is the 'why'."

In conclusion, the findings of this study show that BLM's reinvention effort has been both selective and incomplete. Survey results, policies, and actions taken by BLM over the last five years point to a selective reinvention guided by agency centered priorities. In selective reinvention, issues which were easily fixed, or advantageous to the Agency's well-being were addressed first. Other issues, potentially of greater significance, were sidelined because of internal and external factors limiting reinvention.

In order for government to holistically reinvent, it must consider both internal and external factors which inhibit the process.

Reinvention may prove to be more difficult than anyone expected, but recent efforts by the BLM indicate a renewed emphasis toward customer service. Examples of recent BLM efforts in this direction include: (1) a BLM organized public forum (scheduled for summer 1999) to focus on nationwide public land issues in a regular and recurring fashion; (2) BLM cooperation in an Access Task Force commissioned by the Secretary of Energy to look at concerns regarding the availability and use of natural gas located on Federal lands; and (3) BLM leadership and employee responsiveness relating to industry concerns with the recently proposed Oil and Gas Comprehensive Rule.

Government claims that through reinvention it has been listening to customers and this is what they have heard, "You want services that are timely and efficient; (You) want to save money; and, (You) are willing to partner with us to help make changes" (Putting Customers First 97, 1997). According to the findings of this re-

port, government has heard correctly. However, the real proof of reinvention is not in the rhetoric government produces, rather it is in the ability of agencies like the BLM to maintain an ongoing effort to improve customer satisfaction.

Recommendations

Based on the analysis of BLM's reinvention effort, several recommendations are offered for reviving the reinvention effort and producing noticeable improvements across all dimensions of customer service.

(1) Revive the BPR [Bureau Performance Review], along with many of its uncompleted objectives as set forth in its Final Report (Bureau of Land Management, 1995).

(2) Empower members of the BPR to set agency priorities, participate in the budget process, and develop accountability mechanisms.

(3) Recognize reinvention as an ongoing effort to monitor results and identify emerging issues. Establish an ongoing petroleum forum to facilitate direct and meaningful communication among the oil and gas industry, the BLM, members of the regulatory community, and other interested parties.

(4) Identify where Agency priorities and customer priorities may be in conflict, and clearly define the nature of those conflicts. Through "partnering with customers," understanding and trust can be developed. In this atmosphere, creative solutions to many ongoing conflicts can be creatively addressed.

(5) Work with customers to develop legislative remedies to hurdles such as FACA that prevent constructive and meaningful discussions. A great deal of money and time could be saved through better communication.

(6) Coordinate with other agencies to develop a strategy for meeting national energy and environmental goals.

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