

**H.R. 1229, “PUTTING THE GULF BACK
TO WORK ACT”; H.R. 1230, “AMER-
ICAN OFFSHORE LEASING NOW
ACT”; AND H.R. 1231, “REVERSING
PRESIDENT OBAMA’S OFFSHORE
MORATORIUM ACT”**

LEGISLATIVE HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND
MINERAL RESOURCES

OF THE

COMMITTEE ON NATURAL RESOURCES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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LEGISLATIVE HEARING ON H.R. 1229, "PUTTING THE GULF BACK TO WORK ACT"; H.R. 1230, "AMERICAN OFFSHORE LEASING NOW ACT"; AND H.R. 1231, "REVERSING PRESIDENT OBAMA'S OFFSHORE MORATORIUM ACT".

**Wednesday, April 6, 2011
U.S. House of Representatives
Subcommittee on Energy and Mineral Resources
Committee on Natural Resources
Washington, D.C.**

The Subcommittee met, pursuant to call, at 10:02 a.m. in Room 1324, Longworth House Office Building, Hon. Douglas Lamborn, [Chairman of the Subcommittee] presiding.

Present: Representatives Lamborn, Fleming, Duncan, Gosar, Landry, Fleischmann, Johnson, Hastings, Wittman, Holt, Tsongas and Markey.

STATEMENT OF HON. DOUGLAS LAMBORN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. LAMBORN. The Subcommittee will come to order. The Chairman notes the presence of a quorum, which under Committee Rule 3[e] is two Members.

The Subcommittee on Energy and Mineral Resources is meeting today to hear testimony on H.R. 1229, "Putting the Gulf Back to Work Act," H.R. 1230, "Restarting American Offshore Leasing Now Act," and H.R. 1231, "Reversing President Obama's Offshore Moratorium."

Under Committee Rule 4[f], opening statements are limited to the Chairman and Ranking Member of the Subcommittee. However, in the case of today's hearing, we will be accommodating the Chairman and Ranking Member of the full Committee.

However, I ask unanimous consent to include any other Member's opening statement in the hearing record if submitted to the clerk by close of business today. Hearing no objection, so ordered. And I will yield to myself first for an opening statement.

Today we will examine the first bills before this Committee under the American Energy Initiative. These bills introduced by Natural Resources Committee Chairman Doc Hastings are the first steps in reforming our domestic energy policies to set us forward on a new path of expanding production of nation's resources.

The purpose of the American Energy Initiative is to stop Washington's policies that are driving up gasoline prices and to expand American energy production to help lower costs, create jobs, and generate revenue. These specific proposals meet the goal of the Speaker to avoid the complicated and comprehensive 300- or 1,000-page bills that have been done in the past.

Specifically, these three bills we are considering today are H.R. 1229, "Putting the Gulf Back to Work Act," which will establish a requirement for a permit to drill in statute and require safety review; H.R. 1230, "The Restarting American Offshore Leasing Now Act" that will resume Outer Continental Shelf lease sales delayed or canceled by the Obama Administration; and H.R. 1231, "Reversing President Obama's Offshore Moratorium Act." When the Administration took office in 2009, there was a proposed 2010 to 2015 OCS plan on the table. This Administration immediately scrapped that plan and delayed the development of a new plan by two years. This delay period is where we are now with rising gasoline prices and declining production in the Outer Continental Shelf.

While these bills deal directly with our oil and natural gas policies, these bills will not be the last words from this Subcommittee. In the months ahead, the Subcommittee will continue to focus on expanding renewable energy, onshore oil, natural gas and mineral production onshore, coal, and other critical minerals that are vital to renewable energy and new technology.

The Subcommittee will consider future specific proposals that generate more energy, create jobs, and more revenue for the Federal Government that are offered by Members on either side of the aisle.

When Congress talks about creating jobs, you will hear various proposals from different sides, often trying to pick and choose those industries that should be favored. But we should work to ensure that as many industries and sectors of our economy as possible are creating jobs. Many seem to think that renewable oil and gas are an either/or equation, but the truth is we can and should do both.

Off the coast of Virginia, there is no reason we cannot proceed forward with a progressive program of wind development and promoting responsible oil and natural gas development, while at the same time ensuring that the defense, fishing, and tourism jobs that exist today are protected. There is no one right choice in this recipe; we must choose to do all these things.

Doing so can have a tremendous benefit for the American people. Just the offshore oil and gas development is projected to create more than a million new jobs all across America if implemented. But resource development is not just about drilling everywhere. We must develop our resources where the resources are. This simple concept seems to elude many people, but I believe it is one the American people understand.

Last year during the height of the BP disaster, the American people were wondering why we are drilling in deeper and deeper water which is more risky. The reason is simple. That is where the oil is located. But that isn't the only place our oil resources are. It is just the only place we are allowing drilling to take place.

America has vast oil resources in the Outer Continental Shelf off Alaska and off the coast of California in shallow water. And at a shallower depth under the earth, these resources are significantly easier to develop and produce and present less risk to the people and the environment.

Finally, these bills are about raising revenue for the Federal Government. In 2008, bonus bids and rentals from the OCS totaled nearly \$10 billion. In Fiscal Year 2011, the budget estimate is \$150

million, a decline of \$9.85 billion. This tremendous decline is because of the decisions made by this Administration not to hold any lease sales in the OCS in 2011, the first time that this has happened since passage of the Outer Continental Shelf Lands Act in 1957.

In closing, the bills before us today are the first steps in an aggressive energy agenda this Committee will address to help make America more energy secure, create jobs, and generate revenue to help us balance our budget.

At this point, I would like to yield to the Ranking Member.

[The prepared statement of Chairman Lamborn follows:]

**Statement of The Honorable Doug Lamborn, Chairman,
Subcommittee on Energy and Mineral Resources**

Today, we will examine the first bills before this Committee under the American Energy Initiative. These bills introduced by Natural Resources Committee Chairman Doc Hastings are the first steps in reforming our domestic energy policies to set us forward on a new path of expanding production of our nation's resources. The purpose of the American Energy Initiative is to stop Washington policies that are driving up gasoline prices and expand American energy production to help lower costs, create jobs and generate revenue. These "bite size" proposals meet the goal of the Speaker to avoid the complicated and comprehensive 300- or 1000-page bills that have been done in the past.

Specifically, the three bills we are considering today are H.R. 1229, "Putting the Gulf Back to Work Act" that will establish a requirement for a permit to drill in statute and require safety review; H.R. 1230, the "Restarting American Offshore Leasing Now Act" that will resume Outer Continental Shelf lease sales delayed or canceled by the Obama Administration; And H.R. 1231, the "Reversing President Obama's Offshore Moratorium Act.". When the Administration took office in 2009, there was a proposed 2010–2015 OCS plan on the table.

This Administration immediately scrapped that plan, and delayed the development of a new plan by two years. This delay period is where we are now with rising gasoline prices and declining production in the OCS.

While these bills deal directly with our oil and natural gas policies, these bills will not be the last word from this Subcommittee. In the months ahead, the Subcommittee will continue to focus on expanding renewable energy, onshore oil, natural gas and mineral production, coal and other critical minerals that are vital to renewable energy and new technology.

The Subcommittee will consider future "bite size" proposals that generate more energy, create jobs, and more revenue for the federal government offered by members on either of the side of the isle.

JOBS

When Congress talks about creating jobs you will hear various proposals from differing sides, often trying to pick and choose those favored industries that should be creating jobs, but we should work to ensure that as many industries and sectors of our economy are creating jobs. Many seem to think that renewables and oil and gas are an either or equation, but the truth is we can and should do both.

Off the coast of Virginia there is no reason we can't proceed forward with an aggressive program of wind development, promoting responsible oil and natural gas development, while at the same time ensuring that the defense, fishing and tourism jobs that exist today are protected. There is no one right choice in this recipe we must chose to do all these things. And doing so can have a tremendous benefit for the American people; just the offshore oil and gas development is projected to create more than a million new jobs all across America.

RESOURCES

But resource development isn't just about drilling everywhere. We must develop our resources where the resources are. This simple concept seems to elude many people, but I believe it is one the America people understand.

Last year, during the height of the BP disaster, the American people were wondering why we are drilling in deeper and deeper water which is more risky. The reason is simple, that is where the oil is located. But that isn't the only place our oil resources are, it is just the only place we are allowing drilling to take place. America has vast oil resources in the OCS of Alaska and off the coast of California

in shallow water. And at a shallower depth under the earth, these resources are significantly easier to develop and produce and present less risk to the people and environment.

REVENUE

Finally, these bills are also about raising revenue for the federal government. In 2008, bonus bids and rentals from the OCS totaled nearly \$10 billion, in FY2011 the budget estimate is \$150 million, a decline of \$9.85 billion. This tremendous decline is because as a result of decisions made by this Administration not to hold any lease sales in the OCS in 2011, the first time that has happened since passage of the Outer Continental Shelf Lands Act in 1957.

CLOSING

The bills before us today are the first steps in an aggressive energy agenda this Committee will address to help make America more energy secure, create jobs and generate revenue to help us balance our budget.

STATEMENT OF HON. RUSH HOLT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. HOLT. Thank you Chairman Lamborn.

Mr. Chairman, two weeks from today it will be one year since the worst oil-related environmental disaster of our lifetime. Fifteen people were injured. Eleven workers were killed. Oil spewed from the blown-out well for 87 days, polluting rich waters of the Gulf of Mexico and shattering the livelihoods of thousands of Americans who depend on these resources.

Nearly one year after the BP *Deepwater Horizon* disaster, Congress has not enacted a single reform to improve the safety of offshore drilling.

Now I am sure some of you would say why are we revisiting that in light of this legislation before us today. Chairman Hastings is a thoughtful person, but I must put in perspective this legislation before us today. It seems that I must remind us of the events of the past year.

Rather than having a hearing today on legislation that Ranking Member Markey and I have introduced to implement the reforms of the independent BP Spill Commission, the majority is holding a hearing on three bills that could potentially, and I would say would likely, make offshore drilling less safe. We must put this in perspective.

Now H.R. 1229 would impose artificial and arbitrary deadlines on the Department of the Interior to approve permits to drill. Under this bill, after 60 days—whether or not the safety and environmental review has been completed by the Interior Department—the drilling application would be deemed approved.

It is hard to imagine that a policy response to the *Deepwater Horizon* disaster that you would want to present before the American people could be less rigorous oversight and regulation of offshore drilling. I can't believe that the American people would want that. And the result of the majority's legislation could be to actually hamper new permits being issued as the Department might be forced in some instances to deny permits if the environmental review was not completed and the clock was about to run out.

This legislation would issue a blanket extension of existing leases in contrast to this across-the-board approach the Department is already working on a case-by-case basis to extend existing leases where the action is warranted.

Indeed, five extensions have been issued by the Department and H.R. 1229 would give a free ride to companies even if their leases are many years from expiring, which is completely unwarranted. H.R. 1229 also contains wholly unwarranted provisions designed to close the doors of the courthouse to plaintiffs who believe the Federal Government is not complying with the law. For heaven sakes, we have had the results of this Commission that show so many things that should have been brought to light, perhaps through the courts.

H.R. 1230 would force the Department to rush to hold new lease sales in the Gulf of Mexico by prohibiting any further environmental review pursuant to NEPA. Somehow the proponents of this legislation watched footage of millions of barrels of oil spilling into the Gulf and decided that a full NEPA process to try to learn from this disaster was to be avoided.

By deeming the pre-spill NEPA work as sufficient, this legislation would transport us back to a time when spill response plans were so sloppy they mentioned walruses in the Gulf of Mexico and blowout preventers were believed to actually prevent blowouts.

In addition, this legislation would force the Department to move forward on a lease sale off the coast of Virginia within one year. Mr. Lamborn has said we can drill there without harming fishing and tourism. Americans, particularly I would say in central New Jersey whom I know well, would disagree.

H.R. 1231 would open up massive swaths of public land off the East and West Coast to drilling. This legislation would force the Interior Department to open all of California as well as the Mid- and North Atlantic to drilling. Oil companies are already holding tens of millions of acres of public land on which they are not producing oil and thousands of leasing on which they are not even exploring. But here we are considering legislation that would reward these companies by giving away nearly all of our beaches and coastal areas. It is hard to think that before we even enact legislation to improve the safety of offshore drilling, which we badly need, we would put more economies, more beaches, and potentially more lives at risk for another spill and blowout.

These bills were written as though the *Deepwater Horizon* disaster had never occurred. Another ten seconds, if I may. These bills would take us in completely the wrong direction. They make offshore drill less safe rather than more safe. This Committee and this Congress should be enacting real reform to ensure that similar disasters never happen again. Thank you, Mr. Chairman.

[The prepared statement of Mr. Holt follows:]

Statement of The Honorable Rush D. Holt, Ranking Member, Subcommittee on Energy and Mineral Resources, on H.R. 1229, H.R. 1230, H.R. 1231

Thank you.

Mr. Chairman, two weeks from today is the first anniversary of the worst oil-related environmental disaster in our nation's history. Fifteen people were injured and eleven workers were killed. Oil spewed from the blown-out well for 87 days, polluting the rich waters of the Gulf of Mexico and shattering the livelihoods of thousands of Americans that depend on those resources. Nearly one year after the BP Deepwater Horizon disaster, Congress has not enacted a single reform to improve the safety of offshore drilling.

Rather than having a hearing today on legislation that Ranking Member Markey and I have introduced to implement the reforms of the independent BP spill com-

mission, the majority is holding a hearing on three bills that could potentially make offshore drilling **less** safe.

H.R. 1229 would impose artificial and arbitrary deadlines on the Department of Interior to approve permits to drill. Under this bill, after 60 days, whether or not the safety and environmental review has been completed by the Interior Department, the drilling application would be **deemed** approved. It is hard to imagine that the policy response to the Deepwater Horizon disaster could be less rigorous oversight and regulation of offshore drilling. And the result of the majority's legislation could be to actually hamper new permits being issued, as the Department might be forced in some instances to deny permits if the environmental review was not completed as the clock was about to run out.

This legislation also would issue a blanket extension of existing leases. In contrast to this across-the-board approach, the Department already is working, on a case-by-case basis, to extend existing leases where such action is warranted. Indeed, 5 extensions have already been issued by the Department. H.R. 1229 would give a free ride to companies even if their leases are many years from expiring, which is completely unwarranted.

H.R. 1229 also contains wholly unwarranted provisions designed to close the doors of the courthouse to plaintiffs who believe the federal government is not complying with the law. These provisions are aimed at environmental plaintiffs but will almost certainly impair the legal rights of many other potential plaintiffs.

H.R. 1230 would force the Department to rush to hold new lease sales in the Gulf of Mexico by prohibiting any further environmental review pursuant to NEPA. Somehow, the proponents of this legislation watched footage of millions of barrels of oil spilling into the Gulf and decided that a full NEPA process to try to learn from this disaster was to be avoided at all costs. By deeming pre-spill NEPA work as sufficient, this legislation would transport us back to a time when spill response plans were so sloppy they mentioned walrus in the Gulf of Mexico and blow-out preventers were believed to always prevent blow-outs.

In addition, this legislation would force the Department to move forward with a lease sale off the coast of Virginia within 1 year. Rather than pausing after the BP spill to reevaluate whether the risks of drilling off the east coast are warranted, this legislation would require that it happen by a date certain.

And finally, H.R. 1231 would open up massive swaths of public land off the East and West Coasts to drilling. This legislation would force the Interior Department to open all of California, as well as the mid and North-Atlantic to drilling. Oil companies already are holding tens of millions of acres of public land on which they are not producing oil and thousands of leases on which they are not even exploring. But here we are considering legislation that would reward these companies by giving away nearly all of our beaches and coastal areas. It is hard to think that before we even enact legislation to improve the safety of offshore drilling, we should put more local economies, more beaches and potentially more lives at risk from another spill.

These bills were written as though the Deepwater Horizon disaster had never occurred. These bills would take us in the completely wrong direction. They could make offshore drilling less safe rather than more safe. They could endanger the lives of our workers, our economy, and our environment. Instead, this Committee and this Congress should be enacting real reforms to ensure that a similar disaster never happens again.

Mr. LAMBORN. Thank you. I now recognize the full Committee Chairman for his opening statement.

STATEMENT OF HON. DOC HASTINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. HASTINGS. Thank you, Chairman Lamborn for the courtesy of holding this hearing today on the three bills that I introduced to create jobs and lower energy prices.

President Obama is traveling the country this week talking about energy. Unfortunately, these speeches represent more rhetoric, in my opinion, that doesn't match the President's long record of blocking and delaying American energy production. The speeches are full of sound bites, but lack specific plans on how to create more American energy.

Meanwhile, House Republicans are taking action. We have launched the American Energy Initiative, an effort to expand all types of American energy to create American jobs and lower energy prices. The three bills that we will be discussing today are part of this initiative. These bills take proactive steps to expand American energy production and directly reverse Obama Administration policies that have placed our American energy resources off limits.

H.R. 1229, The Putting the Gulf Back to Work Act would end the Administration's de facto moratorium on the Gulf of Mexico in a safe, responsible, transparent manner by centering first, firm timelines for considering permits to drill. And it reforms current law by requiring the Secretary to issue a permit to drill and also requiring the Secretary to conduct a safety review.

H.R. 1230, the Restarting American Offshore Leasing Now Act would require the Administration to move forward promptly and conduct offshore leases in the Gulf of Mexico and offshore Virginia, leases that the Obama Administration has delayed or canceled.

And finally, H.R. 1231, The Reversing of President Obama's Offshore Moratorium Act would lift the President's ban on new offshore drilling by requiring the Administration to move forward in the 2012 to 2017 lease plan with energy production in areas containing the most oil and natural gas resources. The bill sets a production goal of 3 million barrels per day in 2027, which would reduce foreign imports by nearly one-third.

When faced with rising gasoline prices and high unemployment, why would we not look for our own American energy resources to help find a solution to this problem? Why would we turn to OPEC to provide us with more energy when we have available resources here at home? Why tell Brazil that the United States will be one of their best customers instead of producing our own onshore resources? Quite frankly, I am baffled by the Obama Administration policies.

It is unacceptable that the Obama Administration continues to slow-walk permits in the Gulf. It is unacceptable that, because of the Obama Administration, 2011 will be the first year since 1958 that there will not be a single offshore lease sale. And it is unacceptable that the Obama Administration has singlehandedly placed areas in the Atlantic and Pacific off limits to new drilling, areas that were open by both Congress and President Bush in 2008. That is why it is crucial that we move forward with these bills.

I propose a drill smart plan, one that targets our efforts toward areas where we know we have the most oil and natural gas resources. In contrast, the Obama Administration has a drill nowhere plan that threatens both our economic recovery and frankly harms our national security.

I once again want to emphasize that these are just the first three bills to be introduced as part of the American Energy Initiative. There will be an array of bills coming soon from this Committee that will focus on renewable energy, onshore energy, hydropower, and the critical materials that make up our energy mix.

With American energy comes American jobs. So I am eager to hear from our witnesses today to see how these bills to expand offshore energy production will help put employers and employees in

the Gulf of Mexico back to work and create new energy jobs from coast-to-coast.

With that, Mr. Chairman, thanks for your courtesy and I yield back my time.

[The prepared statement of Mr. Hastings follows:]

**Statement of The Honorable Doc Hastings, Chairman,
Committee on Natural Resources**

Thank you Subcommittee Chairman Lamborn for holding this legislative hearing today on three bills I recently introduced to expand American energy production, create jobs and lower prices.

President Obama is traveling the country this week talking about energy. Unfortunately, in my opinion, these speeches represent more rhetoric that doesn't match the President's long record of blocking and delaying American energy production. The speeches are full of sound bites, but lack specific plans on how to create more American energy.

Meanwhile, House Republicans are taking action. We've launched the American Energy Initiative—an effort to expand all types of American energy to create jobs and lower energy prices. The three bills we'll be discussing today are part of this Initiative.

These bills take proactive steps to expand American energy production and directly reverse Obama Administration policies that have placed our American energy resources off-limits.

H.R. 1229, the Putting the Gulf Back to Work Act, would end the Administration's de facto moratorium in the Gulf of Mexico in a safe, responsible, transparent manner by setting firm time-lines for considering permits to drill. It reforms current law by requiring the Secretary to issue a permit to drill and also requiring the Secretary to conduct a safety review.

H.R. 1230, the Restarting American Offshore Leasing Now Act, would require the Administration to move forward promptly to conduct offshore lease sales in the Gulf of Mexico and offshore Virginia that the Obama Administration has delayed or canceled.

Finally, H.R. 1231, the Reversing President Obama's Offshore Moratorium Act, would lift the President's ban on new offshore drilling by requiring the Administration to move forward in the 2012–2017 lease plan with energy production in areas containing the most oil and natural gas resources. The bill sets a production goal of 3 million barrels of oil per day by 2027, which would reduce foreign imports by nearly one-third.

When faced with raising gasoline prices and high unemployment, why would we not look to our own American energy resources to help provide a solution?

Why would we turn to OPEC to provide us with more energy when we have available resources here at home?

Why tell Brazil that the United States will be one of their best customers, instead of producing our own offshore resources?

Quite frankly, I'm baffled by these Obama Administration policies.

It's unacceptable that the Obama Administration continues to slow-walk permits in the Gulf.

It's unacceptable that because of the Obama Administration, 2011 will be the first year since 1958 that there will not be a single offshore lease sale.

And it's unacceptable that the Obama Administration has single handedly placed areas in the Atlantic and Pacific Coasts off-limits to new drilling that were opened by both Congress and President Bush in 2008.

That's why it's crucial that we move forward with these bills.

I've proposed a drill smart plan one that targets our efforts towards areas where we know we have the most oil and natural gas resources. In contrast, the Obama Administration has a drill nowhere new plan that threatens both our economy recovery and our national security.

I once again would like to emphasize that these are just the first three bills to be introduced as part of the American Energy Initiative. There will be an array of bills coming soon from this Committee that will focus on renewable energy, onshore energy, hydropower and critical minerals.

With American energy comes American jobs. I'm eager to hear from our witnesses today about how these bills to expand offshore energy production will help put employers and employees in the Gulf of Mexico back to work and create new energy jobs from coast to coast.

Mr. LAMBORN. Thank you for your statement. Seeing that the Ranking Member is not here—

Mr. HOLT. If I could ask unanimous consent that sometime later in the hearing, the Ranking Member of the full Committee be given the opportunity to make a statement.

Mr. LAMBORN. I have no objection. Is there any other objection? If not, we will honor that request.

At this point, let us proceed. But we will have to find the best moment, maybe between panels or after the panel or something like that.

At this point, let us proceed to our witness testimony. We have four witnesses with us today. The Honorable Doug Domenech, Secretary of Natural Resources for the State of Virginia; Mr. Hank Danos, President, Danos and Curole Contractors, Inc.; Dr. Joseph R. Mason, Professor, Louisiana State University and Senior Fellow at the Wharton School; and Ms. Emily Woglom, Director of Government Relations for the Ocean Conservancy.

And Mr. Domenech, you may begin. Now when you do start, you have five minutes as we outlined in our invitation letter. And your full statement will appear in the record, of course—your full written statement.

The microphones aren't automatic. You have to affirmatively switch them on. The yellow light will come on after four minutes and then the red light will come on at five minutes.

Mr. Domenech, you may begin. Thank you.

**STATEMENT OF MR. DOUGLAS DOMENECH, SECRETARY OF
NATURAL RESOURCES FOR THE STATE OF VIRGINIA**

Mr. DOMENECH. Good morning Mr. Chairman and Members of the Subcommittee.

On behalf of Virginia Governor Bob McDonnell, thank you for inviting me to discuss the three energy bills introduced last week.

I am Doug Domenech, Secretary of Natural Resources for the Commonwealth of Virginia. In my secretariat, I oversee six state agencies and work to implement the Commonwealth's energy policy.

Virginia applauds Chairman Hastings and the other Members for the introduction last week of H.R. 1229, H.R. 1230, and H.R. 1231. These three bills together expand offshore energy production and will create jobs, lower energy costs, generate revenue to help pay down the national debt, and improve national security by lessening our dependence on foreign sources of oil.

Virginia Governor McDonnell believes that America must have an all-of-the-above energy strategy aimed at making certain we are developing all our energy sources in an economically and environmentally responsible way. This means supporting both conventional and renewable sources of energy, including coal, oil, natural gas, and also wind, solar, biomass, and nuclear production as well. He firmly believes it is critical we reduce our dependence on foreign sources of oil.

The *Deepwater Horizon* accident was devastating to the Gulf states. We know that lessons are being learned and new standards have been put in place. We in Virginia believe we need nothing less than the safest standards for any operations in the Atlantic, but we

must not allow this unfortunate accident to constrain American energy policy at the expense of future domestic energy production, jobs, and rising energy costs on every American family and business.

The Restarting American Offshore Leasing Act now expands American energy production and creates jobs by requiring the Secretary of the Interior to conduct oil and gas lease sales in the Gulf of Mexico and offshore Virginia that have been delayed or canceled by the Administration. Governor McDonnell has requested directly to President Obama and to Interior Secretary Salazar that Interior proceed with the previously scheduled, then canceled lease sale off the coast of Virginia.

Interior initiated the first step for a potential lease sale offshore Virginia in November 2008. The area covered by the call was about 2.9 million acres and at least 50 miles offshore Virginia. Interior estimates that the area may contain 130 million barrels of oil and 1.14 trillion cubic feet of natural gas. Another study estimates the area could produce more than a half a billion barrels of oil and 2.5 trillion cubic feet of natural gas.

It is important to note that there is bipartisan support in Virginia for offshore oil and gas production. Our bipartisan General Assembly is on record in support of offshore development as well as local governments, a majority of our congressional delegation and both of our U.S. senators.

Last March 2010, we were grateful and excited that the President announced that lease sale 2020 would move forward as part of the 2007/2012 five-year plan. However, after the *Deepwater Horizon* accident on April 20, Interior announced an indefinite postponement of the comment period on the Virginia sale and on May 27 the President canceled the lease sale and announced that no areas off the Atlantic Coast would be available for energy development, even in the following five-year plan. This cancellation means no domestic oil and gas in the Atlantic will be accessible for development until sometime between 2017.

In response to the President's announcement, Governor McDonnell issued the following statement, "It is my hope that the President's action does not signal the end of offshore energy exploration and production off Virginia in the years ahead. Once we have learned the lessons from this tragic accident and made the necessary changes and improvements in the offshore industry and government oversight, we should move forward with environmentally responsible domestic offshore energy production for oil and gas."

Since the decision to cancel the Virginia lease sale the worldwide conditions affecting oil and energy security availability and price have continued to deteriorate. The price of crude oil has increased more than 27 percent and the price is now over \$104 per barrel. It is more urgent than ever that we proceed with the responsible development of our domestic energy resources off of Virginia and the rest of the South and Mid-Atlantic Coast.

The Restarting American Offshore Leasing Act now would require the Secretary to hold Virginia lease sale no more than one year after the bill has been signed into law. This bill would proceed now with the scheduled lease sales in a prompt, timely, and safe manner.

These bills go a long way toward increasing America's energy security; however, there are two issues that should be addressed by future legislation—revenue sharing and an improved leasing map. In 2006, Congress passed the Gulf of Mexico Energy Security Act of 2006 (GOMESA) creating revenue sharing with oil-producing states and the Land and Water Conservation Fund for coastal restoration projects. It led to nearly \$30 million in revenue sharing to the states. Virginia believes it is important to share the revenues of oil and gas exploration with coastal states in a similar way and we encourage you to do that in future legislation.

The Governor has also expressed his concern about the size and shape of the Virginia 2020 map. Virginia has a long and cooperative relationship with the Navy. In February 2010, DoD indicated that 72 percent of the lease area of 2020 should be restricted to no oil and gas activity. Virginia believes Congress should in future legislation consider redrawing the Virginia lease area or include provisions to add additional lease blocks for any block that is considered in conflict with military operations.

Thank you very much.

[The prepared statement of Mr. Domenech follows:]

Statement of The Honorable Douglas W. Domenech, Secretary of Natural Resources, Commonwealth of Virginia, on H.R. 1229, H.R. 1230, and H.R. 1231

Good morning Mr. Chairman and members of the Committee. I am Doug Domenech, Secretary of Natural Resources for the Commonwealth of Virginia. In my Secretariat, I oversee six state agencies; the Department of Environmental Quality, the Department of Conservation and Recreation, the Virginia Marine Resources Commission, the Department of Historic Resources, the Virginia Museum of Natural History, and the Department of Game and Inland Fisheries. In addition, my Secretariat works closely with the Department of Mines, Minerals and Energy located within the Secretariat of Commerce and Trade to implement the Commonwealth's energy policy, and my Deputy, Maureen Matsen, serves as the Governor's Senior Energy Advisor.

Virginia applauds the House Natural Resources Chairman, Congressman Doc Hastings, and the Committee for the introduction last week of H.R. 1229 the *"Putting the Gulf Back to Work Act"*, H.R. 1230, the *"Restarting American Offshore Leasing Now Act"*, and H.R. 1231, the *"Reversing President Obama's Offshore Moratorium Act"*. These three bills expand offshore energy production in order to create jobs, lower energy costs, generate revenue to help pay down the national debt, and improve national security by lessening our dependence on foreign sources of oil.

Virginia Governor Bob McDonnell believes that America must have an "all-of-the-above" energy strategy aimed at making certain we are developing all of our energy resources in an economically and environmentally responsible way. He also firmly believes it is critical to reduce our dependence on foreign sources of oil. His approach in Virginia recognizes that there is a need for a broad energy plan that utilizes all aspects of Virginia's natural resources and that benefits both the producer and the consumer. This means supporting both conventional and renewable sources of energy including oil, coal and natural gas, but also wind, solar, biomass, and nuclear production as well. By exploring new energy technologies and improving current energy processes, Virginia aims to become the "Energy Capital of the East Coast." An effective energy plan cannot just rely on a variety of energy sources and research and development; it must also address the core issue of what we can do to conserve our energy resources and improve efficiency.

The Deepwater Horizon accident was devastating to the Gulf States. We know that lessons are being learned and that new standards have been put in place. We in Virginia believe we need nothing less than the safest standards for any operations in the Atlantic. But we must not allow this unfortunate accident to constrain American energy policy at the expense of future domestic energy production, jobs, and rising costs on every American family and business.

The *Restarting American Offshore Leasing Now Act* expands American energy production and creates jobs by requiring the Secretary of the Interior to conduct oil and

natural gas lease sales in the Gulf of Mexico and offshore Virginia that have been delayed or cancelled by the Obama Administration.

Governor McDonnell has requested, directly to President Obama and to Interior Secretary Salazar, that Interior's Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) proceed with the previously scheduled, then cancelled, offshore energy lease sale off the coast of Virginia.

In 2008, in response to record-high gasoline prices, both Congress and the President lifted the decades-long ban on offshore drilling. This opened the entire Pacific and Atlantic Coast to new offshore development.

Interior initiated the first step for a potential lease sale offshore Virginia with a Call for Information published in the Federal Register on November 13, 2008. The area covered by the Call was about 2.9 million acres offshore Virginia in the Mid-Atlantic Planning Area, and is at least 50 miles offshore. The Bureau estimates that this area may contain 130 million barrels of oil and 1.14 trillion cubic feet of natural gas.

The current five-year plan (2007–2012), included a lease sale (#220) off the Virginia Coast in 2012.

There is bipartisan support for oil and gas production offshore of Virginia. Our General Assembly is on record in support of offshore development, as well as local governments, the majority of the Congressional delegation including our two US Senators. On March 31, 2010 the President announced that lease sale 220 would move forward as part of the 2007–12 5-year Plan, opening the possibility for exploration and production of oil and natural gas off the coast of Virginia. Interior published a Notice reopening the comment period.

After the Deepwater Horizon accident on April 20, 2010, Interior announced an indefinite postponement of the comment period. On May 27, 2010 the President cancelled the lease sale effective immediately, and announced that no areas off the Atlantic Coast would be available for energy development in the next five-year plan (2012–2017).

This cancellation means that no domestic oil and gas available in the Atlantic will be accessible for development until sometime beyond 2017. 2011 will be the first year since 1958 that the federal government will not have held an offshore lease sale.

In response to the President's announcement, Governor Bob McDonnell issued the following statement; "It is my hope that the President's action does not signal the end of offshore energy exploration and production off Virginia in the years ahead. Once we have learned the lessons from this tragic accident, and made the necessary changes and improvements in the offshore industry and government oversight, we should move forward with environmentally responsible domestic offshore energy production for oil and natural gas. This nation needs more domestic energy production. If we decrease the amount of energy produced here in the United States, we will only increase the amount of energy we must import from overseas. We must have the foresight and objectivity to not let this tragic accident cripple our ability to increase energy production in the United States. That would be a tragedy in its own right."

Since the decision to cancel the Virginia lease sale, and to withdraw the South and Mid-Atlantic from planning the next Plan for OCS lease sales for oil and gas development, the world-wide conditions affecting oil and energy security, availability, and price have continued to deteriorate. The price of crude oil has increased more than 27 percent since September 2010, and the price is now over \$104 per barrel. It is more urgent than ever that we proceed with the responsible development of our domestic energy resources off of Virginia and the rest of the South and Mid-Atlantic Coast.

The *Restarting American Offshore Leasing Now Act* would require the Secretary of the Interior to hold the Virginia lease sale no later than one year after the bill is signed into law. This bill will reverse the Administration's actions and proceed now with the scheduled lease sales in a prompt, timely and safe manner. The nation cannot afford to wait more than 6 years for meaningful expansion of our domestic oil and gas resource development. We certainly agree that it is critically important for the EIS to incorporate the lessons learned from the tragic deep water drilling accident in the Gulf of Mexico. Indeed, we have expressed our strong support for a thorough examination of prevention, preparation and mitigation strategies. But we remain confident that the foundations for effective planning to protect the environment can be developed in the course of the EIS scoping, drafting and issuance. Further, the time and multiple opportunities for review between preparation of a 5 year Lease Plan, and actual issuance of a drilling permit, allow ample opportunity to include provisions and conditions necessary in light of events and consequences in the Gulf.

According to a study by the Southeast Energy Alliance, offshore energy development in Virginia could create nearly 2,000 jobs and produce more than a half billion barrels of oil and 2.5 trillion cubic feet of natural gas.

These bills go a long way toward increasing America's energy security. However, there are two issues that should be addressed by future legislation: revenue sharing and an improved leasing map.

In 2006, Congress passed the Gulf of Mexico Energy Security Act of 2006 (GOMESA). GOMESA created sharing of leasing revenues with oil producing states in the Gulf and the Land & Water Conservation Fund for coastal restoration projects. Between fiscal years 2008–2010, it led to nearly \$30 million in revenue sharing to the states and coastal political subdivisions.

Virginia believes it is important to share revenues from oil and gas exploration with coastal states in a similar way as it is constructed in the Gulf and would encourage Congress to consider such legislation in the future.

The Governor has also expressed his concern about the size and shape of the lease sale 220 map. Virginia has a long and cooperative relationship with the US Navy. In a February 2010 report, the DOD indicated that 72% of the lease area 220 should be restricted to "no oil and gas activity." Virginia believes that Congress should in future legislation consider redrawing the Virginia lease area or include provisions to add additional lease blocks for any block that is considered in conflict with military operations.

Thank you for the opportunity to testify on behalf of the Commonwealth of Virginia on these important bills.

Mr. LAMBORN. Thank you. We will now hear from Mr. Hank Danos.

**STATEMENT OF MR. HANK DANOS, PRESIDENT,
DANOS & CUROLE CONTRACTORS, INC.**

Mr. DANOS. I want to thank the Chairman and the Ranking Member for the opportunity to be here this morning and provide testimony.

My name is Hank Danos. I am President of Danos & Curole Marine Contractors and we are located in Little Rose, Louisiana. Our company was formed 47 years ago as a small tugboat business, furnishing transportation to the oil and gas industry.

While we remain a family-owned business, since that time we have grown considerably as an oil field service company with a wide range of services and what we believe is an outstanding track record of performance, a commitment to safety and the development of more than 1,000 employees.

The issues that have resulted from the moratorium and the effort to get the industry back up and running are significant. And I am pleased to be here to testify in support of these legislative efforts and in representation of many companies, such as ours, along the Gulf Coast.

While we have done our best in weathering the storm of uncertainty as a result of the moratorium and the slow to uncertain pace of permitting, we have had to let construction and logistical support people go. It is our hope that the operational certainty that would come through these legislative efforts, such as these bills would allow us to restore not only the jobs that were lost, but also to add new jobs as a result of expansion in new areas of OCS.

We are not a producer, but we are a service company, consequently, we are not the applicant submitting the actual permit to drill. However, put simply, a lack of exploration plans and permits to drill means a lack of rigs working to drill new wells and a lack of opportunities for us to provide the essential services that

these companies look to us to facilitate. The supply of new permits to drill is the critical life blood for our business and for many businesses like ours.

Uncertainty about what is required or why a permit might be returned can be not only frustrating to applicants, but can cause unnecessary delays. The approach taken in H.R. 1229 seems to be a common sense way to provide some guidance to the applicant and also that the agency will get information to make a decision, if, indeed, there are some missing parts in the application.

It now appears that without legislative intervention such as H.R. 1230, 2011 will be the first year since 1958 that the Federal Government will not hold a lease sale. Leasing is simply the first step in a long process of getting to actual development. There are numerous steps and regulatory requirements that must be met before getting the green light to actually drill a well on a lease that a company likely paid millions of dollars for earlier and the well may or may not be productive. When businesses are unsure of the future, they have a tendency to be conservative in adding new jobs and making new commitments. Going forward with these lease sales would be a very important and reassuring signal to businesses that would like to add new jobs and make key investments in the future.

Any energy strategy that simply pays lip service to increasing domestic oil and gas production without highlight where that energy will come from is not a serious strategy. H.R. 1231 would take a bold response to the present and future needs of our energy plans by directing us to areas in OCS with the greatest potential. In addition, I am especially pleased to see that, under this legislation, the five-year plans would no longer occur without a strategic production goal in mind. This provision would ensure greater government accountability for the results of an administration's proposed policy outcomes.

Our nation indeed has vast oil and natural gas resources off our shores that provide a tremendous opportunity for us to enhance and control our energy future. We simply need the will as a nation to use these resources.

In conclusion, these bills take a productive, proactive approach to enhancing security and certainty for our businesses that are attempting to create additional jobs and economic growth, but also these will help us meet the energy challenges of the future. I urge the Committee to support these bills. I appreciate the opportunity to be here today and will be glad to continue these discussions with you.

[The prepared statement of Mr. Danos follows:]

**Statement of Hank Danos, President,
Danos and Curole Marine Contractors, Inc.**

I want to thank the Chairman and Ranking Member for the opportunity to be here this morning to provide testimony on these three bills—H.R. 1229, The “Putting the Gulf Back to Work Act”, H.R. 1230, The “Restarting American Offshore Leasing Now Act”, and H.R. 1231, The “Reversing President Obama’s Offshore Moratorium Act.” The issues that have resulted from the moratorium and the effort to get the industry back up and running are significant and I am pleased to be here to testify in support of these legislative efforts. I feel like I represent many companies from the Gulf area that are similar to ours.

My name is Hank Danos and I am the President of Danos & Curole Marine Contractors, Inc. located in Larose, Louisiana. Our company was founded in 1947 as a small tugboat business furnishing transportation to the oil and gas industry. While we remain a family owned business, since that time we have grown considerably as an oilfield services company with a wide range of services, and what we believe is an outstanding track record of performance, a commitment to safety, and to the quality work experience and development of our more than 1000 employees.

While we have done the best we can in weathering the storm of uncertainty as a result of the moratorium and the slow to uncertain pace of permitting, we have had to let some construction and logistical support workers go. It is our hope that the operational certainty that would come through legislative efforts such as those bills before us today would allow us to not only restore some of those lost jobs but also to add new jobs as a result of the expansion in access to new areas in the Outer Continental Shelf (OCS). Having spoken to numerous other businesses about their own operational uncertainty in the region, I believe that other gulf based businesses would also be able to add a significant amount of jobs if the legislation before us today were enacted.

H.R. 1229, the “Putting the Gulf Back to Work Act”

As mentioned earlier, we are not a producer, but rather a service company. Consequently, we are not the applicant submitting the actual permit to drill. However, put simply—a lack of exploration plans and permits to drill means a lack of rigs working to drill new wells and a lack of opportunities for us to provide the essential services that these companies look to us to facilitate. This means that the supply of new permits to drill is the critical lifeblood of new business for us and for many businesses like us.

Uncertainty about what is required or why a permit might be returned can be not only frustrating to the applicant but can cause further unnecessary delays. It seems to be common sense to ensure that if a permit cannot be approved, that guidance be provided as to what in the application is lacking to ensure that the agency will get the information it needs to make a decision on the permit without repeated returns, only to see the clock reset.

In addition, it is essential that the legislation requires that permits meet “all critical safety system requirements, including blowout prevention; and oil spill response and containment requirements.” The Department of the Interior has stated that it would not be issuing new permits if they were not confident that these requirements had been met. It is appropriate to require that new permits should continue to clear that bar.

As I see the threats in the papers from potential litigants opposed to new wells in the gulf, I think it is essential to remind the committee that we will not be able to judge our post spill ability to get up and running and provide the essential energy this country needs until we actually have rigs moving on to location and wells being drilled. I applaud the inclusion of provisions that would ensure that decisions in the court system are made in an expedited fashion as a means of mitigating against the further uncertainty from lawsuits that has come to the industry as a result of these new threats to block new energy development.

H.R. 1230, the “Restarting American Offshore Leasing Now Act”

It now appears that without legislative intervention, 2011 will be the first year since 1958 that the federal government will not hold an offshore lease sale. It has been disappointing to see so many recent confusing messages about why leasing is so important. Leasing is simply the first step in a long process of getting to actual development. There are numerous explorative steps and regulatory requirements that must be met before getting the green light to actually drill a well on a lease a company likely paid millions for years earlier. The well may or may not lead to actual production.

We cannot expect to meet ambitious national goals about “boosting domestic production” and “reducing our dependence upon foreign oil” without feeding potential new leases into the pipeline of future production. This legislation would accomplish that by setting previously anticipated lease sales back into motion. These lease sales, previously a part of the 2012–2017 five year plan, would include two Gulf of Mexico lease sales in 2011, one in 2012, and the anticipated lease sale off the coast of Virginia in 2011.

When businesses are unsure of the future they have a tendency to be conservative in adding new jobs and making new commitments that invest in our economy’s growth. That uncertainty is incompatible with lofty goals of “adding new jobs” and getting the nation’s economy back to work again.” Going forward with these sales

would be a very important and reassuring signal to those businesses that would like to add new jobs and make key investments in the future.

H.R. 1231, the “Reversing President Obama’s Offshore Moratorium Act”

As I mentioned earlier, our nation simply cannot approach lofty goals of “energy independence” and “reducing reliance upon foreign oil” with the same policies we have always pursued with regard to the development of domestic oil and gas. While I recognize that there are also other policy strategies, such as enhancing energy efficiency, which will play a role in meeting these goals, we must be bold with regard to using the resources that we have here off our own shores. It should be noted by the committee, that the U.S. Energy Information Administration (EIA) is forecasting that domestic energy demand will grow by 14 percent between 2008 and 2035, with more than half of that demand expected to be met by oil and natural gas. In addition, they anticipate that oil will supply 33 percent of total domestic energy consumed, and 85 percent of transportation fuels, with oil continuing to be the largest share of our energy need. Any strategy that simply pays lip service to increasing domestic oil and gas production without highlighting where that energy will come from is not a serious strategy and is doomed to fail.

H.R. 1231 would take a bold response to the present and future needs of the nation by directing plans for future development in the areas of the OCS with the greatest potential. In addition, I am especially pleased to see that under this legislation five year plans would no longer occur without a strategic production goal in mind. This rudderless approach is presently underscored by the incompatibility of a publicly stated goal by the administration of boosting domestic oil and gas production in the future with a proposed five year plan for 2012–2017 that contains no new areas for production. This ensures greater government accountability for the results of an administration’s proposed policy outcomes.

Our nation indeed has vast oil and natural gas resources off our shores that provide a tremendous opportunity for us to enhance our control over our energy future and provide desperately needed jobs here at home. While any energy strategy must recognize that we will continue to draw from resources around the world, there are often efforts to lowball America’s energy resources. The Bureau of Energy Management, Regulation, and Enforcement (BOEMRE) estimates that the undiscovered, technically recoverable oil and natural gas resources located in the OCS range from 66.6 billion to 115.1 billion barrels of oil and 326.4 trillion to 565.9 trillion cubic feet of natural gas. These estimates are likely quite conservative given that they were not performed with the benefit of new technology and that many areas are largely unexplored. In fact, the Gulf of Mexico has already exceeded by six times its original resource estimates.

Conclusion

In conclusion, these three bills take a proactive approach to enhancing certainty for not only businesses that are attempting to create additional jobs and economic growth, but also certainty in how this nation will meet its energy challenges both now and into the future. Each time consumers see an increase at the pump, we see an increased attention to these issues—for a time. That focus is always met by those who oppose expanding oil and gas production with the response that there is not much that can be done in the short term to impact prices now. While it is true that we cannot simply snap our fingers and produce more instantaneously, that response continually avoids the larger question of what policy choices need to be made now to change that outcome in the future.

According to a recent study, the oil and natural gas industry already provides approximately 9.2 million jobs and more than \$1 trillion dollars to our nation’s economy. Desperately needed jobs are there for the taking if we will simply allow common sense policies to ensure orderly development of our nation’s OCS resources.

I appreciate the opportunity to be here today and provide testimony and would be happy to answer any questions that members of the committee might have for me.

Mr. LAMBORN. Thank you for being here and for your testimony. We will now hear from Professor Joseph R. Mason from Louisiana State University.

**STATEMENT OF JOSEPH R. MASON, Ph.D., MOYSE/LBA
ENDOWED PROFESSOR, LOUISIANA STATE UNIVERSITY AND
SENIOR FELLOW, THE WHARTON SCHOOL**

Dr. MASON. Good morning and thank you Chairman Lamborn, Ranking Member Holt and Members of the Committee for having me here to testify today on this very important topic.

As an economist, my opinions are based on one simple truth, every legislative and regulatory decision has implications for jobs and output. Hence, foregoing access to energy resources in the Outer Continental Shelf in the Gulf of Mexico inextricably has economic consequences.

During the Gulf moratorium, the courts acknowledged such views. In response to the Administration's policy, a Federal judge in New Orleans blocked enforcement of the moratorium, writing that, and I quote, "The blanket moratorium with no parameters seems to assume that because one rig failed, all companies and rigs drilling new wells over 500 feet also universally present an imminent danger, which was not in the Court's opinion sufficient justification for taking economic value from private sector jobs and firms."

In the field of economics, such value-destroying economic takings are not as rare as one might think. Previous research gives a worrying indication of what can be expected from the regulatory responses to events like Fukushima, *Deepwater Horizon* and the mortgage crisis. The results show that regulatory decisions are influenced by many factors beyond the dispassionate evaluation of the economic costs and benefits.

For instance, a recent study by Mian, Sufi, and Trebbi in 2010 found that Congressional Representatives whose constituents had higher rates of mortgage defaults were likely to be in favor of the Foreclosure Prevention Act, despite economic evidence that foreclosure prevention has unavoidable economic costs. Other research by Moran and Weingast from 1982 showed that politicians influenced the activities of the Federal Trade Commission, skewing the work of a supposedly independent regulatory agency.

Grabowski and Vernon, in 1978, showed that the NASA Consumer Product Safety Commission (CPSC) tended to focus on products where risks were well understood already, ostensibly, to better justify their creation to lay outsiders. Moreover, only five of the CPSC's top 21 priority products for regulation at that time had measurable economic benefits that exceeded proposed regulatory costs.

What we can observe from a large body of economic research on the political economy of regulation, therefore, is that both elected officials and regulatory agencies are influenced by political factors which may lead to suboptimal solutions to complicated problems such as energy policy and the mortgage crisis.

In recent years, regulatory agencies have continued to impose costly policies upon the economy without congressional approval. For instance, while the EPA ruling that carbons should be treated as a pollutant was ultimately supported by the Supreme Court many in Congress still maintained that the agency overstepped its bounds in such a dramatic and potentially costly reinterpretation of its rules.

The carbon ruling, however, is somewhat less problematic than the EPA's December 2009 backdoor regulation of phthalates used to soften plastics. Although the EPA did not have sound scientific evidence upon which to ban phthalates outright, the agency imposed the precautionary principle to temporarily halt their production until evidence could be provided that they are completely safe.

The Bureau of Ocean Energy Management, Regulation and Enforcement's recent Gulf of Mexico drilling policy seems to have been based on similar policy reasoning. While specific companies, a specific type of platform design, and BP itself have been blamed for the *Deepwater Horizon* blowout, BOEM continue to severely restrict not only deepwater but also shallow-water drilling in the Gulf of Mexico, despite ongoing economic damage to the Gulf region. Then blatantly disregarding the Commission's finding, BOEM's first deepwater permit approval went to BP.

In looking at the political economy of new regulatory arrangements, therefore, we must look with skepticism and concern upon both the political motivations of the regulatory officials charged with enforcing the rules and the uncomic power that will be concentrated in those regulatory officials as a result of their influence over the implementation costs and economic redistribution. Without restraint, a toxic mix of politics and power may damage both the industry and the environment.

When new agencies like BOEM and the Consumer Financial Protection Board, for instance, are created they have a strong incentive to prove their worth to their creators and flex their muscle with regard to their related industries. As such, new agencies regularly undergo dramatic power shifts before settling into anything that could be considered a stable role in the U.S. regulatory framework.

The proposed legislation before us can in some ways help that evolution by leading the process, balancing regulatory accountability and economic growth is therefore a useful lens that sharpens our focus on regulatory rent-seeking. Thank you.

[The prepared statement of Dr. Mason follows:]

**Statement of Dr. Joseph R. Mason, Hermann Moyse, Jr./
LBA Professor of Finance, Louisiana State University¹**

I. The Impetus for Increasing U.S. Offshore Oil Production

Maintaining energy independence by increasing U.S. offshore oil and natural gas production has long been recognized as a national imperative. In 2006, the U.S. Minerals Management Service (MMS) reported to Congress that, "much of the growth in the Nation's energy demand will have to be met by OCS. . . if further increases of imported supplies are to be avoided." MMS also estimated that, "OCS oil production could account for as much as 40 percent of domestic oil production by 2010." Furthermore, the MMS indicated that the OCS natural gas resources would become an essential source of energy as imports from other countries—particularly Canada—decline.

Apart from national energy concerns, however, economic considerations also favor increased development of OCS energy resources. Specifically, the boost provided to local onshore economies by offshore production would be particularly welcome in the present economic climate. Similar to fiscal alternatives presently under consideration, OCS development would provide a *long-run* economic stimulus to the U.S. economy because the incremental output, employment, and wages provided by OCS development would be spread over many years. Unlike those policies, however, this

¹The opinions expressed here are my own and are not necessarily reflective of those of LSU or any other entity.

stimulus would not require government expenditures to support that long-term growth.

A. The Present State of Offshore U.S. Oil and Gas Production

Despite its importance, U.S. oil and natural gas production in offshore areas is currently limited to only a few regions. At the present time, oil and gas is only actively produced off the coast of six U.S. states: Alabama, Louisiana, Mississippi, Texas, California, and Alaska. The Energy Information Administration (EIA) reports that Alabama, Louisiana, Mississippi, and Texas are the only coastal states that provide access to all or almost all of their offshore energy resources. Only two additional states—Alaska and California—are producing any offshore energy supplies. All California OCS Planning Areas and most Alaska OCS Planning Areas, however, were not open to any new facilities until the recent end of the Congressional and Presidential moratoria. The remaining 16 coastal states are not open to new production and are not presently extracting any offshore energy resources.

Even without those remaining sixteen states, plus California and Alaska, the OCS is already the most important source of U.S. energy supplies. According to the MMS, “the Federal OCS is a major supplier of oil and natural gas for the domestic market, *contributing more energy (oil and natural gas) for U.S. consumption than any single U.S. state or country in the world.*” That is, OCS production presently meets more U.S. energy demand than any other single source, including Saudi Arabia.

B. Offshore Oil Production Stimulates Onshore Economies

Offshore oil and gas production has a significant effect on local onshore economies as well as the national economy. There are broadly three “phases” of development that contribute to state economic growth: (1) the initial exploration and development of offshore facilities; (2) the extraction of oil and gas reserves; and (3) refining crude oil into finished petroleum products. Industries supporting those phases are most evident in the sections of the Gulf of Mexico that are currently open to offshore drilling.

For example, the U.S. shipbuilding industry—based largely in the Gulf region—benefits significantly from initial offshore oil exploration efforts. Exploration and development also requires specialized exploration and drilling vessels, floating drilling rigs, and miles and miles of steel pipe, as well as highly educated and specialized labor to staff the efforts.

The onshore support does not end with production. A recent report prepared for the U.S. Department of Energy indicates that the Louisiana economy is “highly dependent on a wide variety of industries that depend on offshore oil and gas production” and that offshore production supports onshore production in the chemicals, platform fabrication, drilling services, transportation, and gas processing. Fleets of helicopters and U.S.-built vessels also supply offshore facilities with a wide range of industrial and consumer goods, from industrial spare parts to groceries. As explained in Section IV.G, however, the distance between offshore facilities and onshore communities can affect the relative intensity of the local economic effects.

The economic effects in the refining phase are even more diffuse than the effects for the two preceding phases. Although significant capacity is located in California, Illinois, New Jersey, Louisiana, Pennsylvania, Texas, and Washington, additional U.S. refining capacity is spread widely around the country. As a result, refinery jobs, wages, and tax revenues are even more likely to “spill over” into other areas of the country, including non-coastal states like Illinois, as those are home to many refining and chemical industries that ride the economic coattails of oil exploration and extraction.

II. Offshore Oil and Gas Reserve Estimates and the Sources of their Economic Benefits

As described in my 2009 white paper, “The Economic Contribution of Increased Offshore Oil Exploration and Production to Regional and National Economies,” available at www.americanenergyalliance.org/images/aea_offshore_updated_final.pdf, significant oil and gas reserves lie under the U.S. Outer Continental Shelf (OCS). According to the Energy Information Administration (EIA), the OCS (including Alaskan OCS Planning Areas) contains approximately 86 billion barrels of recoverable oil and approximately 420 trillion cubic feet of recoverable natural gas. As noted by the White House, however, the OCS estimates are conservative. Of the total OCS reserves, a significant portion was unavailable to exploration until recently. Specifically, Presidential and Congressional mandates banned production from OCS Planning Areas covering approximately 18 billion barrels of recoverable oil and 77.61 trillion cubic feet of recoverable natural gas. These bans covered approximately 31 percent of the total recoverable OCS oil reserves and 25 percent of the total recoverable OCS natural gas reserves.

Economic benefits of utilizing OCS reserves accrue from three primary sources: (1) exploration/platform investments; (2) production; and (3) refining. Sources (1) and (3) produce initial affects—that is, new industry expenditures—*today*; in contrast, source (2) produce economic effects only once production begins. The analysis therefore considers “initial” economic effects as those that flow from exploration or investments in new refining capacity and long-term economic effects as those that flow from production and ongoing refining.

A. Exploration and Offshore Facility Development

In contrast to other industries, the high fixed investment costs associated with offshore oil and gas production produce large initial investments that reverberate throughout the economy. Once oil or gas reserves are located, billions of additional dollars must be spent before the well produces even \$1 of revenue. For example, oil exploration costs can amount to between \$200,000 and \$759,000 *per day per site*. Additional production in the U.S. will also require a costly expansion refining capacity as well. Taken together, the fixed expenditures that precede actual offshore oil and gas production can amount to billions of dollars.

For example, Chevron’s “Tahiti” project in the Gulf of Mexico is representative of the large investments that firms must make before production is achieved. In 2002, Chevron explored the Tahiti lease—which lies 100 miles off the U.S. coast at a depth of 4,000 feet—and found “an estimated 400 million to 500 million barrels of recoverable resources.” Chevron estimates that it will take seven years to build the necessary infrastructure required to begin production at Tahiti. The firm estimates that its total development costs will amount to “\$4.7 billion—before realizing \$1 of return on our investment.”

As a typical U.S. offshore project, the Tahiti project provides a wealth of information regarding the up-front investment costs, length of investment, and lifespan of future OCS fields. As noted above, the Tahiti field is estimated to hold between 400 million and 500 million barrels of oil and oil equivalents (primarily natural gas) and is expected to require an initial fixed investment of \$4.7 billion. Using the mid-point reserve estimate of 450 million barrels of oil equivalent, up-front development costs amount to approximately \$10.44 per barrel of oil reserves or \$1.86 per 1,000 cubic feet of natural gas reserves. These costs will be spread over 7 years, resulting in average up-front development expenditures equal to \$1.49 per barrel of oil and \$0.27 per 1,000 cubic feet of natural gas. Chevron also estimates that the Tahiti project will produce for “up to 30 years”. Although investment and production times vary widely, the analysis that follows uses the Tahiti project numbers—an average initial investment period of seven years followed by an average production period of 30 years—as indicative of the “typical” offshore project. I will thus assume an average initial investment period of seven years followed by an average production period of 30 years.

The speed of OCS development also factors into the analysis. Because most areas of the U.S. OCS have been closed to new exploration and production for almost forty years, it is unclear how quickly firms would move to develop new offshore fields. Given its large potential reserves, however, the OCS is sure to attract significant investment. Without the benefit of government data, a rough estimate suggests that annual total investment in OCS fields would be \$9.09 billion per year.

Those annual expenditures are expected to last, on average, the full seven years of the development phase. Additional investment in states that already support significant production—Alabama, Louisiana, Mississippi, and Texas—are limited. Some of the greatest benefits accrue to areas that are home to enormous—but unavailable—total reserves: California and Florida.

B. Production

The likely value of state recoverable oil and gas reserves are estimated using the likely lifetime revenue that could be generated by the project. In that case, average wholesale energy prices provide the information necessary to translate reserves into revenues. Taking the simple average of the EIA’s latest inflation-adjusted energy price forecasts through 2030 as provided by its *Annual Energy Outlook 2009*, the average inflation-adjusted price of oil will be \$110.64 per barrel and the average inflation-adjusted price of natural gas will be \$6.83 per thousand cubic feet. At these prices, the estimated OCS reserves are worth about \$13 trillion.

The value of each state’s available reserves are calculated as the sum of (1) its share of available OCS Planning Area oil reserves times \$110.64 per barrel and (2) its share of available OCS Planning Area natural gas reserves times \$6.83 per thousand cubic feet. The same method applies to the valuation of total state OCS reserves. By those estimation methods, states such as California, facing a budget crisis in the current recession, have an estimated \$1.65 trillion in resources available

in nearby OCS planning areas. Florida, while not facing as dire a fiscal crisis, has about \$0.55 trillion in resources available in nearby OCS planning areas. Hence, a permanent relaxation of all federal OCS production moratoria would unlock more than \$3.4 trillion in new production among all the coastal states.

C. Investments in Incremental Refining Capacity

Since U.S. refineries are presently operating near maximum capacity increased offshore oil and gas production would also spur investment in new refineries. The U.S. refining industry is presently operating at 97.9 percent of capacity and can no longer depend on excess foreign refining to meet production shortfalls arising from seasonality or repairs. In response, many large refiners are already considering refinery expansions: ConocoPhillips announced that it planned to spend \$6.5 billion to \$7 billion on capacity expansion at its U.S. facilities; Chevron has also considered a major refinery expansion; and while Shell is completing a \$7 billion expansion and its Port Arthur, Texas refinery they are considering further expansion elsewhere.

Additional refinery investments are likely to occur in the few U.S. states that already host significant U.S. refineries. This result is largely due to environmental restrictions that severely limit the placement of new refining capacity. Current capacity is primarily concentrated in California, Louisiana, and Texas.

The U.S. presently has an operating refining capacity of approximately 6.287 billion barrels of crude oil per year. Conservative estimates of OCS production would add approximately 3.773 billion barrels per year, or about sixty percent of current U.S. operating refinery capacity. Because some OCS refining production would most likely substitute for foreign production, however, the analysis conservatively assumes that only one-quarter of this new OCS production necessitates additional U.S. refinery capacity. That is, I estimate that U.S. refinery demand would increase by 943.25 million barrels per year, or 15 percent of current installed capacity.

Even this modest capacity increase would require substantial new investments. In response to existing capacity constraints, Shell is already increasing the capacity of its Port Arthur, Texas refinery. This expansion will take approximately two and one-half years to complete and cost \$7 billion. The facility will add 325,000 barrels per day (or 118.6 million barrels per year) in new capacity, at a cost of approximately \$59.02 per barrel of new annual capacity.

As noted above, since tough environmental regulations effectively limit new refinery capacity to a few states, refinery investments are likely to be limited to only a few states with large existing capacity. These states can be reasonably assumed to be the same states the already have large installed refinery capacity. Hence, incremental refinery capacity will be added predominantly in states already home to large refining capacity—those with a present capacity of more than 200 million barrels per year. There are seven such states: California, Illinois, Louisiana, New Jersey, Pennsylvania, Texas, and Washington.

Expected increases in offshore oil production will induce approximately \$22 billion in refining capacity investments each year for two and one half years. California, Texas, and Louisiana will receive the bulk of this investment, but investments of more than \$1 billion annually can be expected in Illinois, New Jersey, Pennsylvania, and Washington.

III. Increased Investments in Offshore Oil and Gas Production will Cause Substantial Increases in Wages, Employment, and Taxes, and Profound Effects on Communities Throughout the Nation

Onshore state and local economies benefit from the development of OCS reserves by providing goods and services to offshore oil and gas extraction sites. Onshore communities provide all manner of goods and services required by offshore oil and gas extraction. A variety of industries are involved in this effort: shipbuilders provide exploration vessels, permanent and movable platforms, and resupply vessels; steelworkers fashion the drilling machinery and specialized pipes required for offshore resource extraction; accountants and bankers provide financial services; and other onshore employees provide groceries, transportation, refining, and other duties. These onshore jobs, in turn, support other jobs and other industries (such as retail and hospitality establishments).

The statistical approach known as an “input-output” analysis measures the economic effects associated with a particular project or economic development plan. This approach, which was pioneered by Nobel Prize winner Wassily Leontief, has been refined by the U.S. Department of Commerce. The most recent version of the Commerce Department’s analysis is known as the Regional Input-Output Modelling System, or “RIMS II.” The RIMS II model provides a variety of multipliers that measure how an economic development project—such as offshore drilling—would “trickle down” through the economy providing new jobs, wages, and government rev-

enues. This analysis can be broken down into two parts: (1) a “direct” analysis measuring the benefits that arise from industries that directly supply offshore oil and gas exploration and (2) the “final” analysis that measures the direct *and* indirect benefits associated with offshore exploration.

The RIMS II model is the standard method governmental authorities use to evaluate the benefits associated with an economic development project. According to the Commerce Department, the RIMS II model has been used to evaluate the economic effects of many projects, including: opening or closing military bases, tourist expenditures, new energy facilities, opening or closing manufacturing plants, shopping malls, sports stadiums, and new airport or port facilities.

A. *Opening OCS Planning Areas would Unleash More than \$11 trillion in Economic Activity*

The broadest measure of the incremental effect of increased OCS oil and natural gas extraction is the effect on total economic output. Until OCS production begins, onshore communities will realize only the benefits associated with offshore investment. These benefits take two forms: (1) the development of the offshore facilities themselves and (2) the expansion of onshore refining capacity. These two effects, taken together, provide a rough approximation of the additional output that would be created by allowing greater access to offshore reserves.

Of course, the investment expenditures and resulting output estimated above is only made to facilitate oil and gas extraction. Once extraction begins, additional economic activity continues for the lifetime of the oil and natural gas reserves.

Using the total U.S. multipliers (2.2860 for refining and 2.3938 for extraction), the total increase in U.S. output from *initial investment* is estimated to be a total of about \$0.5 trillion, or approximately \$73 billion per year for the first seven years the OCS is open. For comparative purposes, a \$73 billion stimulus amounts to approximately 0.5 percent of total U.S. output (GDP) per year.

Increased OCS oil and gas *extraction* would yield approximately \$5.75 trillion in new coastal state output over the lifetime of the fields. Approximating the total increase in output associated with increasing offshore resource production throughout the U.S. (including states in the interior), yields approximately \$2.45 trillion in additional output.

The total increase in output in the United States is estimated to total approximately \$8.2 trillion or about \$273 billion per year, which amounts to just over two percent of GDP. Because the OCS areas are currently unavailable, the entire amount—\$8.2 trillion—is completely new output created by a simple change in policy allowing resource extraction in additional OCS Planning Areas.

B. *Opening OCS Planning Areas could Create Millions of New Jobs*

An economic expansion tied to increased OCS resource production would also create millions of new jobs both in the extraction industry and in other sectors that serve as suppliers or their employees.

The annual increase in coastal state employment from initial investments in previously unavailable OCS planning areas and additional refining capacity is estimated to be 185,320 full-time jobs per year. Again, this number does not consider the spill-over effects of investment in productive capacity and refining to other U.S. states. The total increase in U.S. employment from the investment phase is approximately 271,570 full-time jobs per year.

Applying the BEA multipliers to the estimated production value results in approximately 870,000 coastal state jobs *in addition* to the jobs created during the initial investment phase. Again, the total increase in U.S. employment in all states (including those in the interior) resulting from increased OCS production is 340,000 greater, for a total of approximately 1,190,000 jobs be sustained for the entire OCS production period.

Increased investment and production in previously unavailable OCS oil and gas extraction and the ancillary industries that support the offshore industry would produce thousands of new jobs in stable and valuable industries. Among the 271,572 jobs created in the investment phase and sustained during the first seven years of the investment cycle. The majority of new positions (162,541 jobs, or 60 percent) would be created in high-skills fields, such as health care, real estate, professional services, manufacturing, administration, finance, education, the arts, information, and management. Although the largest total increase in employment in the production phase would occur (quite naturally) in the mining industry, significant numbers of jobs would be created in other industries. Again, many of these new jobs would be created in high-skills fields, representing approximately 49 percent of all new jobs and approximately 61 percent of all new non-mining jobs.

C. Opening OCS Planning Areas can Release Trillions of Dollars of Wages to Workers Hit by Recession

Those jobs pay wages. OCS development is estimated to yield approximately \$10.7 billion in new wages in coastal states each year. OCS production would yield approximately \$1.406 trillion in additional wage income to workers in coastal states over the lifetime of the fields (or \$46 billion per year over 30 years). Across the U.S., the investment phase would generate approximately \$15.7 billion in additional annual wages *per year for the first seven years* and \$70 billion per year for the next thirty years, or approximately \$2.1 trillion in additional wage income.

BLS data suggest that all four broad industry classifications related to oil and gas extraction pay higher wages and similar jobs in other industries. Jobs in: (1) Oil and Gas Extraction, (2) Pipeline Transportation of Crude Oil, (3) Petroleum and Coal Products Manufacturing, and (4) Support Activities for Mining, typically pay higher wages than the average American job. Taking this broader measure, the average job created by increased offshore oil and gas production pays approximately 28 percent more than the average U.S. job.

D. Opening OCS Planning Areas can Contribute Trillions of Dollars in Taxes and other Public Revenues to Local, State, and Federal Governments

Greater output, more jobs, and higher wages translate into higher tax collections and increases in other sources of public revenues. The MMS Report to Congress suggests that public revenues derived from OCS extraction are significant—the U.S. federal government has collected more than \$156 billion in lease and levy payments for OCS oil and natural gas production. Note that this amount counts only lease and royalty payments and thus does not include any sales and income taxes paid by firms or workers supported by OCS production.

Conservative estimates suggest that seven years of initial annual exploration and refining investments would produce approximately \$4.8 billion annually in coastal state and local tax revenue and \$11.1 billion in U.S. federal tax income. Over thirty years of production, I estimate that the extraction phase of OCS development would yield approximately \$561 billion (\$18.7 billion per year) in coastal state and local tax revenue and approximately \$1.64 trillion (\$54.7 billion per year) in new U.S. federal tax income.

E. The Economic Effects Associated with Increasing U.S. Offshore Oil and Gas Production Vary by Drilling Distance from Shore

Government sources indicate that the economic effects associated with increased OCS oil and gas production are likely to vary with the distance from shore. This dynamic has important implications for the analysis because increasing OCS development includes a mix of both shallow and deep water projects. Deep water projects are far more expensive than shallow water projects, however, so far fewer are undertaken.

According to the MMS, the cost of developing a deep water field can exceed \$1 billion. This cost far exceeds the cost of developing a shallow field, which the MMS places at approximately \$100 million. While some are tempted to argue that deep water fields are significantly larger than shallow water fields, that argument in part arises from an observational bias arising in part because firms will only bear the high cost of development for sufficiently large fields. Nonetheless, while it is estimated that deep and ultra deep water oil reserves are some 35–60 times the magnitude of shallow water reserves, the economics of exploration and development, as well as production, dictate that deep and ultra deep projects will not generate sufficient production to relieve the importance of shallow water projects any time soon.

The increased cost and offshore distance associated with deep water operations has several implications for the above economic analysis. While the increased cost of development translates into increased purchases of goods and services in local communities, as distance increases shore operations can be more easily centralized into a few communities that serve many deep water fields. Thus the local economic effects associated with deep water production are likely to be greater and more concentrated than they are for shallow water production.

IV. Summary and Conclusions

The present paper estimates the *net* local and national economic effects that can be expected from opening OCS Planning Areas. In contrast to previous analyses of offshore development, the present study estimates economic growth and output associated with the production phase, but also estimates the economic effects of the exploration and development phases as well. In truth, exploration and development involve a great deal of economic activity, suggesting that opening OCS Planning

areas can increase economic growth, provide jobs, increase aggregate wages, and add to public revenues both today and for years in the future.

Over the life span of development, OCS planning areas will contribute approximately \$8.7 trillion dollars to U.S. economic growth, of which some \$2.2 trillion can be expected to be paid out in wages to employees in almost 38 million annual jobs, many in high-paying professional career fields.

That economic growth will also generate just over \$1.7 trillion in Federal tax revenue, almost \$0.6 trillion in state and local tax revenue, and inestimable royalty and lease revenue that will in many cases be split between the two. Those revenues will contribute to schools, health centers, and infrastructure projects that will contribute substantially to the quality of life in not only coastal regions directly affected by the development, but nationwide. Immediate revenues from exploration can also help many coastal states weather the effects of the present recession and mortgage crisis without Federal aid.

While some are suggesting limiting OCS Planning Area development to areas located more than one hundred miles offshore, it is important to point out that such limitations substantially curtail the benefits of OCS development. Not only are the costs of such deep and ultradeep water development often prohibitive, but production in such areas is more volatile as a result and Federal subsidies substantially diminish the potential public revenue gains from opening OCS Planning Areas.

In summary, investment and development in OCS Planning Areas can increase economic growth with attendant effects on jobs, wages, taxes, and other public revenues, helping to both invigorate and stabilize economic growth while reducing oil price volatility. The resulting economic growth and public revenues are particularly attractive to local economies close to previously prohibited OCS planning areas like those off the coasts of California and Florida, which are experiencing the full force of recession and mortgage foreclosures. Jobs in these areas can be particularly powerful in resuscitating the economy and restoring economic growth. It makes no sense to consciously choose to forego such a substantial source of economic growth in a recession.

In closing, a caveat. The present analysis is only meant to be a starting point for discussing the economic effects of unavailable OCS reserves rather than an exact estimate of the economic effects of OCS Planning Area development and operation. Clearly there will be debate about many of the parameters used in the analysis. No amount of debate, however, should detract from the simple reality that reaffirming the OCS moratoria will leave valuable economic growth opportunities on the table precisely at a time when the country owes its citizens access to jobs and wages that can help them weather the current recession.

Mr. LAMBORN. Thank you for your testimony. We will now hear from Emily Woglom from the Ocean Conservancy. Thank you.

**STATEMENT OF MS. EMILY WOGLOM, DIRECTOR,
GOVERNMENT RELATIONS, OCEAN CONSERVANCY**

Ms. WOGLOM. Thank you, Chairman Lamborn, Chairman Hastings, Ranking Member Holt and Members of the Subcommittee thank you for the invitation to participate in today's hearing.

My name is Emily Woglom and I am the Director of Government Relations for Ocean Conservancy, a national marine conservation organization that has brought scientists and citizens together to promote a healthy ocean for the last 40 years.

I have worked on marine issues since I served as a budget and policy analyst for ocean issues at the Office of Management and Budget during the Bush Administration and in my academic training I focused jointly on research economics and marine environmental management.

Ocean Conservancy recognizes that together we must all continue to develop energy sources to sustain and promote economic growth and support our social needs. And we appreciate having the opportunity today to discuss ways to responsibly and safely meet our country's energy demand.

In two weeks it will have been one year since the beginning of the BP oil disaster that killed 11 people and discharged an estimated 205 million gallons of oil into the Gulf of Mexico. Even a year later, there are still places where oil is coming ashore, shrimp trawlers are dredging up oil, unusual numbers of dead dolphins, turtles, and other wildlife continue to be found in the Gulf and we do not yet understand the cause.

Local residents have unanswered questions about long-term health effects of the oil and the dispersants used to combat it. And of course, hundreds of thousands of jobs in fisheries, tourism, and recreation are directly tied to the health of the coastal and marine environment. Fishing and tourism in the Gulf bring in \$57 billion and support over 830,000 jobs. And yet, it is in this environment only a year later that offshore drilling continues and Transocean is getting bonuses for their safety record and even BP itself is eager to drill in the Gulf.

Yet, despite a clear roadmap for reform presented by the bipartisan National Oil Spill Commission, there has been no congressional action to address the systemic problems that led to this disaster, and there is still tremendous work to be done to fully restore the Gulf ecosystem. But instead of reform and restoration, we are here to discuss bills to accelerate the very processes that need to be overhauled.

Under the old system, America gambled on oil industry promises and lost. Congress must not double down on that flawed system, and instead do everything it can to ensure that the highest safety standards are met and proven.

The bills that are the subject of this hearing—H.R. 1229, H.R. 1230, and H.R. 1231—pursue a lopsided approach, a full steam ahead path that jeopardizes the health of ecosystems as well as the people and businesses that depend on them. Each of these three bills irresponsibly prioritizes development and production at the cost of safety, science, and environmental safeguards.

Moreover, we view these bills as forcing a choice, placing oil companies over fishermen, small business owners, and employees of the tourism industry. H.R. 1229 rushes secretarial approval of drilling by declaring that permits would be deemed approved if the Secretary does not issue a decision within 60 days.

H.R. 1230 would subvert the NEPA process by forcing lease sales in the Gulf of Mexico and off the coast of Virginia on a rushed time line. It would deny Interior the opportunity to conduct a thorough and specific environmental review and would deny the public the opportunity to learn about and comment on these lease sales.

H.R. 1231 would effectively force Interior to offer for lease sweeping areas of the OCS and establish production goals for the five-year OCS leasing program. This again would incentivize production over safety. In so doing, it would make it difficult for the agency to conduct any meaningful, site-specific analysis of the potential environmental consequences and risks of oil and gas activity.

The last section of H.R. 1231 would force taxpayers to foot half the bill for certain oil and gas exploration costs. Particularly, in our current fiscal climate oil and gas companies, some of the richest corporations on earth, do not need another subsidy. To ensure that energy development minimizes risks to energy workers, ocean and

coastal ecosystems and the coastal businesses and economies that rely on them, Congress and government regulators must act now.

There have been some attempts to address this, including the Clear Act and Ranking Member Markey's bill, H.R. 501, but unfortunately so far no bills have made it to the President's desk. Ocean Conservancy encourages any legislation to adhere to some core principles.

First, energy development must protect environmental, human, and economic health and must be grounded in science and a commitment to an increased understanding of the environment. Second, the government must perform rigorous risk assessments when permitting development. Third, the government and industry must together ensure that they are prepared to respond to a worse case disaster, even if such an event is a low probability. And finally, Congress must provide the funding necessary to ensure adequate preparedness.

If there is to be a place for oil drilling in the Gulf of Mexico, then it should be governed by a set of rules that exist because of, not in spite of the BP oil disaster. It is not too late to avoid making the same mistakes again. Thank you and I look forward to your questions.

[The prepared statement of Ms. Woglom follows:]

**Statement of Emily Woglom, Director of Government Relations,
Ocean Conservancy, on H.R. 1229, H.R. 1230, and H.R. 1231**

Chairman Hastings, Ranking Member Markey, and Members of the Committee, thank you for the invitation to participate in today's hearing. My name is Emily Woglom, and I am the Director of Government Relations for Ocean Conservancy, a national marine conservation organization that has brought scientists and citizens together to promote a healthy ocean for the last forty years. I have worked on marine issues since I served as a budget and policy analyst for ocean issues at the Office of Management and Budget during the Bush Administration. In my graduate program at Duke University I focused jointly on resources economics and marine environmental management. Through my training and professional career I have experience looking at the intersection of natural resource issues and economic concerns in the ocean.

I. INTRODUCTION

Last spring, an explosion rocked the BP Deepwater Horizon offshore drilling rig in the Gulf of Mexico. The explosion and resulting fire killed 11 crew members, seriously injured 16 others, and eventually sank the rig. The explosion marked the beginning of the "world's largest accidental release of oil into marine waters." By the time BP effectively stopped the flow of oil on July 15, 2010, its Macondo well had discharged an estimated 205 million gallons of oil into the Gulf of Mexico. The Gulf disaster impacted lives, livelihoods, and the rich and diverse Gulf of Mexico ecosystem that is a national treasure and a cornerstone of the regional economy.

Ocean Conservancy recognizes that the United States must continue to develop energy sources needed to sustain and promote economic growth and support our social needs. But the catastrophe in the Gulf of Mexico shows that we must learn to do so in ways that are safe for energy workers and that allow us to maintain a healthy environment for this and future generations.¹ At the same time, conservation—including reducing our use of and dependence on hydrocarbons and other high-risk, non-renewable energy sources—must be a part of our country's energy future. Safe and responsible energy development, coupled with sensible conservation

¹The Gulf disaster is just one of many energy-related disasters that have been in the news lately. In 2009, the Montara offshore oil platform suffered a blowout and released oil into the Timor Sea for more than 70 days. Shortly before the Deepwater Horizon disaster in April 2010, there was a massive explosion at the Upper Big Branch coal mine in West Virginia that killed 29 miners. And, of course, there is an ongoing crisis at Japan's Fukushima Dai-ichi nuclear complex, where radioactive water is now leaking into the ocean and slowing response to the devastation of the tsunami.

measures and investments, will help ensure that there are economic opportunities, healthy and diverse ecosystems, and a clean and safe environment into the future.

Finding a path to safe, responsible, and ultimately sustainable, energy development is one of the biggest challenges of our time. Congress must not view this issue as a political football that can be used to score partisan points. Instead, it must do all in its power to bring the nation together and commit to doing energy development right, including investing in renewable energy sources and conservation programs. The following basic principles should guide the process:

- (1) Energy development must protect environmental, human, and economic health;
- (2) Energy development must be grounded in science and a commitment to increased understanding of the environment;
- (3) Development operations must use the best available, safest engineering and technology;
- (4) Government regulators must perform rigorous risk assessments;
- (5) Government regulators and industry operators must ensure that they are prepared to respond to a worst-case disaster, even if such an event is of low probability;
- (6) Congress must provide the funding necessary to ensure adequate preparedness;
- (7) Our nation's energy policy must include conservation programs; and
- (8) Congress must commit to restoration in the Gulf of Mexico.

Below, in Part II of this testimony, I expand on these guiding principles. In Part III, I discuss specific areas where the proposed bills that are the subject of this hearing—H.R. 1229, H.R. 1230, and H.R. 1231—diverge from these principles. And in Part IV, I suggest legislative language that would address some specific aspects of the energy issue, including funding for restoration of the Gulf of Mexico, science and oil spill preparedness, and an Arctic research and monitoring program.

II. Principles for Safe and Responsible Energy Development

To ensure that energy development minimizes risks to energy workers, ocean and coastal ecosystems, and the coastal businesses and economies that rely on them, Congress and government regulators should adhere to the principles articulated below.

A. *Energy development must protect environmental, human, and economic health.*

In our pursuit of energy, we must minimize risks to the natural environment to ensure diverse, healthy ecosystems capable of supporting the economy and human health—for this generation and the next. Oil and gas lease sales, exploratory drilling, and development and production on the Outer Continental Shelf (OCS) are appropriate only when science shows that such actions can proceed with minimal risk to the health of ocean and coastal ecosystems. Oil and gas activities and other energy development activities on the Outer Continental Shelf should be consistent with the National Ocean Policy's call to "protect, maintain, and restore the health and biological diversity of ocean, coastal, and Great Lakes ecosystems and resources."² In addition, to help ensure that economic sectors other than oil and gas development are given adequate consideration, we should move toward a more comprehensive system of regional planning for the conservation and management of marine resources.

Instead of eroding existing standards, Congress should bolster environmental safeguards to help ensure that the marine environment is adequately protected from the risks of energy development. The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, for example, noted the need for a "comprehensive overhaul of both leasing and the regulatory policies and institutions used to oversee offshore activities."³ To help minimize risks from OCS activities, expert agencies other than the Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE) should play a greater role in decisions about, and preparation of environmental analyses for, oil and gas operations. These agencies should include the National Oceanic and Atmospheric Administration (NOAA), the U.S. Fish and Wildlife Service (USFWS), the U.S. Coast Guard (USCG), and others. To facilitate more meaningful environmental analysis before exploration and drilling activities

²Executive Order 13547, 75 Fed. Reg. 43,023, 43,023 (July 22, 2010). The National Ocean Policy also includes calls to "improve the resiliency of ocean, coastal, and Great Lakes ecosystems, communities, and economies," and to "use the best available science and knowledge to inform decisions affecting the ocean, our coasts, and the Great Lakes." *Id.* at 43,023–24.

³National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, *Deep Water: The Gulf Oil Disaster and the Future of Offshore Drilling—Report to the President* (Jan. 11, 2011) at 250 [hereinafter *National Commission Report*].

proceed, OCS planning areas—at least in frontier areas—should be smaller and focused more precisely on specific lease tracts. Finally, areas of the marine environment that are particularly significant—such as important essential fish habitat, areas of high productivity or concentrations of wildlife, migratory pathways, and subsistence-use areas—should be protected from the impacts of OCS oil and gas activities. Regulators should preserve the resilience of marine ecosystems by placing important ecological areas off-limits to drilling, or by requiring OCS operators to meet specific, stringent precautions before they conduct on-water activities that may affect these areas.

B. Energy development must be grounded in science and a commitment to increased understanding of the environment.

Congress must ensure that adequate baseline science is in place before OCS activities proceed. Scientific baseline data and risk analyses should inform decisions about whether, when, and where to allow OCS oil and gas activities. Certain types of scientific information are necessary to help plan for and implement oil spill response operations. In addition, baseline science is necessary in the natural resource damage assessment process following an oil spill because the impacts must be measured against the environmental baseline that existed prior to the spill.⁴ This is not possible without adequate time series of baseline data, and the costs of obtaining such data are part of the costs of responsible energy development.

Before permitting OCS activities to proceed, we should require the availability of specific types and quantities of baseline scientific information. This information might include information on physical characteristics—such as data on the benthic environment, ocean currents, wind and weather patterns, and water temperature and salinity—as well as information about the ecosystem, such as the presence, distribution, and abundance of species and the web of relationships among those species. Collection of baseline science should include and incorporate local and traditional knowledge from affected communities. This approach would ensure that expert concerns are heard from the outset, and would help avoid later complications.

The need for baseline science information is particularly acute in the Arctic OCS. Participants in a workshop⁵ on Natural Resource Damage Assessments [NRDA] in the Arctic convened on April 20, 2010—the same day as the BP Deepwater Horizon disaster began to unfold—participants concluded that: “Even under best-case scenarios, spilled oil could have serious consequences for natural resources and local communities, requiring a NRDA to be initiated. However, very little, if any, NRDA work has been done in the Arctic.” The National Commission noted that “scientific research on the ecosystems of the Arctic is difficult and expensive. Good information exists for only a few species, and even for those, just for certain times of the year or in certain areas.”⁶ The Commission recommended “an immediate, comprehensive federal research effort to provide a foundation of scientific information on the Arctic (with periodic review by the National Academy of Sciences), and annual stock assessments for marine mammals, fish, and birds that use the Beaufort and Chukchi Seas.”⁷

C. Development operations must use the best available engineering and technology.

Going forward, we must ensure that OCS facilities use the best available engineering, technology, and safety procedures to maximize the protection of workers, ocean and coastal ecosystems, and the coastal businesses and economies that rely on them. A recent Department of the Interior Inspector General Report concluded that BOEMRE’s “process for developing or updating standards and regulations has not kept pace with new and emerging offshore technologies.”⁸ Operators of all new offshore leases should be required to demonstrate that they are using the most effective safety technology for exploration or development activity as a precondition to drilling.⁹ Standards regarding spill prevention technologies should be implemented,

⁴ See, e.g., 15 C.F.R. § 990.52 (noting that natural resource trustees “must quantify the degree, and spatial and temporal extent of such injuries relative to baseline.”); see also *id.* § 990.30 (defining “baseline” as “the condition of the natural resources and services that would have existed had the [oil spill] incident not occurred.”).

⁵ National Oceanic and Atmospheric Administration Office of Response and Restoration and University of New Hampshire Coastal Response Research Center. *Natural Resources Damage Assessment in the Arctic: The Dialogue Begins* (October 2010) at 4.

⁶ National Commission Report at 303.

⁷ *Id.*

⁸ Office of Inspector General, U.S. Department of the Interior, *A New Horizon: Looking to the Future of the Bureau of Ocean Energy Management, Regulation and Enforcement* (Dec. 2010), at 44.

⁹ At present, OCSLA provides for “the use of the best available and safest technologies...on all new drilling and production operations and, wherever practicable, on existing operations.”

as well. These might require redundant engineering controls, such as multiple or improved blowout prevention systems, on-site blowout containment structures, and double-walled pipes or tanks. All OCS leases should be required to incorporate the most environmentally protective timing and location stipulations and terms so as to reduce the potential for environmental damage and the potential for adverse impact on the coastal zone.

D. Regulators must perform a rigorous risk assessment.

As development activities proceed, regulators must ensure a rigorous analysis of potential impacts and risks. As noted above, federal agencies other than BOEMRE should have a greater role in planning for and conducting environmental analyses of OCS oil and gas activities. Risk analysis should be science-based, and subject to peer review. Analysis pursuant to the National Environmental Policy Act (NEPA) should be substantive—not mere window dressing—and OCS drilling operations should not be categorically excluded from environmental review. All OCS drilling activities should be subject to site-specific NEPA analysis, either an Environmental Assessment or an Environmental Impact Statement.

The BP Deepwater Horizon disaster highlighted the risk of failing to engage in worst-case oil spill planning. When making decisions that involve the potential for catastrophic result—such as a major oil spill—environmental analyses must take seriously the potential for disaster. This is true even if the probability of an individual occurrence is low, because the harm from such an event may be very great.¹⁰ In the future, federal regulators must analyze low-probability, high-risk events to ensure that they are prepared for a worst-case disaster. The Council on Environmental Quality concluded that, in light of the BP Deepwater Horizon disaster, BOEMRE must “take steps to incorporate catastrophic risk analysis.”¹¹ The National Commission recommended that BOEMRE “incorporate the ‘worst-case scenario’ calculations from industry oil spill response plans into NEPA documents and other environmental analyses or reviews” to inform the agency’s “estimates for potential oil spill situations in its environmental analyses.”¹²

Agency assessment of industry oil spill plans must be more rigorous, as well. In the Arctic, BOEMRE approved an oil spill response plan in which Shell Offshore, Inc. claimed that it would recover 90 percent of the oil spilled during a worst case discharge from its proposed facility in the Beaufort Sea¹³—even though a 90 percent recovery rate is, without question, wholly unrealistic. BOEMRE approved the plan despite the fact that in earlier planning documents, the agency had acknowledged that “[o]n average, spill-response efforts result in recovery of approximately 10–20% of the oil released to the ocean environment.”¹⁴ This kind of lax oversight led DOI’s Office of Inspector General to conclude that BOEMRE’s review of oil spill response plans “does not ensure that critical data are correct.”¹⁵

To facilitate more serious review of oil spill response plans for offshore facilities, broaden the scope of review, and promote better information-sharing in the review process, multiple federal agencies should review and approve these plans. The National Commission endorsed the idea of interagency spill plan review:

In addition to the Department of the Interior, other agencies with relevant scientific and operational expertise should play a role in evaluating spill response plans to verify that operators can conduct the response and contain-

43 U.S.C. § 1347(b). However, this requirement is weakened significantly by other provisions: it applies only to certain types of equipment, and the Secretary of the Interior may waive the requirement if he determines that the additional cost of using the “best” or “safest” technology outweighs the additional benefits of using the technology. *Id.*

¹⁰ See, e.g., *id.* § 1502.22(b)(4) (noting that in a NEPA analysis when information is missing or unavailable, “reasonably foreseeable” impacts include “impacts which have catastrophic consequences, even if their probability of occurrence is low, provided that the analysis of the impacts is supported by credible scientific evidence, is not based on pure conjecture, and is within the rule of reason”).

¹¹ Council on Env’tl. Quality, *Report Regarding the Minerals Management Service’s National Environmental Policy Act Policies, Practices, and Procedures as They Relate to Outer Continental Shelf Oil and Gas Exploration and Development* (Aug. 16, 2010) at 27.

¹² *National Commission Report* at 267.

¹³ See Shell Offshore Inc., Beaufort Sea Regional Exploration Oil Discharge Prevention and Contingency Plan (Jan. 2010) at unnumbered page following I–12 (containing BOEMRE approval letter); *id.* at 1–29 (assuming that only ten percent of the discharge from a hypothetical blowout will “escape [] primary offshore recovery efforts”).

¹⁴ Minerals Management Service, Final Environmental Impact Statement: Beaufort Sea Planning Area Oil and Gas Lease Sales 186, 195, and 202 p. IV–17 (Feb. 2003).

¹⁵ Office of Inspector General, U.S. Department of the Interior, *A New Horizon: Looking to the Future of the Bureau of Ocean Energy Management, Regulation and Enforcement* (Dec. 2010), at 44.

ment operations detailed in their plans. Specifically, oil spill response plans, including source-control measures, should be subject to interagency review and approval by the Coast Guard, EPA, and NOAA. Other parts of the federal government, such as Department of Energy national laboratories that possess relevant scientific expertise, could be consulted.¹⁶

The Commission also noted that interagency review of oil spill response plans for OCS facilities would facilitate greater integration of those plans with broader-level area contingency plans and regional contingency plans because it would “involve[e] the agencies with primary responsibility for government spill response planning in oversight of industry planning.”¹⁷ In addition to interagency review of oil spill response plans for OCS facilities, there should be public comment on such plans.¹⁸

E. Government regulators and industry operators must ensure that they are prepared to respond to a worst-case disaster.

Worst-case scenario planning will help federal regulators and OCS operators anticipate their needs in the event of a major oil spill or other disaster. To protect healthy, diverse ocean ecosystems for future generations, regulators and the oil and gas industry must also ensure the immediate availability of equipment and trained personnel sufficient to contain, control, and clean-up a worst-case discharge.

Estimates following the BP Deepwater Horizon disaster reveal that despite the massive effort that BP activated to clean up the oil¹⁹ response efforts were able to remove or chemically disperse—without removal of the dispersed oil—only about one-third of the oil that was discharged from the Macondo well.²⁰ The National Commission determined that “[t]he technology available for cleaning up oil spills has improved only incrementally since 1990”²¹ The Commission further observed that “[f]ederal research and development programs in this area are underfunded,” and the major oil companies have committed minimal resources to in-house research and development related to spill response technology.”

To spur better on-water cleanup results and more investment in research and development for response technologies, regulators should require operators to demonstrate the ability to meet specific performance standards in real-world conditions in the lease area before allowing operators to conduct drilling operations. The performance standards should require operators to demonstrate in simulated field trials that they have in place adequate equipment, personnel, and resources to respond effectively in the event of a catastrophic spill. Operators should show that they can deploy their resources in real-world conditions and that the chosen equipment is effective in meeting an established oil removal performance target. These spill response standards should be enforced through independent third-party review of facility response plans and regular audits during the period of exploration and production.

F. Congress must provide the funding necessary to ensure adequate preparedness.

It will not be enough to require adequate oil spill preparedness in legislation or agency regulations. Congress also must commit the necessary financial resources to enable relevant federal agencies, such as the Coast Guard, NOAA, the Department of the Interior (DOI), and others, to do their jobs. Absent stable and adequate funding for oil spill preparedness, federal agencies may not be able to carry out their responsibilities to plan, prepare, and respond to incidents, and to contain, control, and clean-up a major oil spill.

To ensure that research and development on oil spill response technologies is not put off until the next catastrophic spill, Congress should provide steady funding for federal agencies to promote and conduct such research. The National Commission recommended that Congress establish a funding mechanism that is not subject to the annual appropriations process to “increase federal funding for oil spill response research by agencies such as [the Department of the] Interior, the Coast Guard, EPA, and NOAA—including NOAA’s Office of Response and Restoration.”²² In addi-

¹⁶ National Commission Report at 266–67.

¹⁷ *Id.* at 267.

¹⁸ *See id.* (“Plans should also be made available for a public comment period prior to final approval and response plans should be made available to the public following their approval.”)

¹⁹ At its peak, more than 45,000 people were involved in the response effort. *National Commission Report* at 133.

²⁰ *See* Jane Lubchenco *et al.*, *BP Deepwater Horizon Oil Budget: What Happened to the Oil?* (Aug. 4, 2010) available at [http://www.restorethegulf.gov/sites/default/files/imported_pdfs/posted/2931/Oil Budget description 8 3 FINAL.844091.pdf](http://www.restorethegulf.gov/sites/default/files/imported_pdfs/posted/2931/Oil%20Budget%20description%208%203%20FINAL.844091.pdf) (estimating that of the 4.9 million barrels of oil that was discharged, responders recovered 17% directly from the wellhead, skimmed 3%, burned 5%, and chemically dispersed 8%, for a total of 33%).

²¹ National Commission Report at 269.

²² *Id.* at 270.

tion, agencies may be able to increase their own focus on spill response research. For example, the DOI Inspector General recommended that DOI “[c]onduct additional research on containment and control measures to determine appropriate requirements for containing oil discharge at the source.”²³ As noted above, agencies also can promote industry investment in oil spill response research and development by instituting strict new performance standards that require operators of OCS facilities to demonstrate the effectiveness of their spill response equipment in real-world conditions before they are allowed to conduct drilling activities.²⁴

G. Congress must commit to restoration in the Gulf of Mexico.

A sound energy development policy must include a commitment to restoration of the Gulf of Mexico ecosystem and communities. The Gulf’s people, businesses, and ecosystem suffered a major blow from last summer’s BP Deepwater Horizon disaster. As we move forward with safer, more responsible energy development, we must support restoration efforts by committing to a full Natural Resource Damage Assessment process and by dedicating Clean Water Act penalties to Gulf restoration work.

Successful restoration of the Gulf ecosystem—including preserving the region’s unique culture and traditions and promoting its economic restoration—will require sound management, stable and coordinated funding, prudent project selection, stewardship of the full ecosystem, and monitoring and adaptive management over the long-term. Restoration should focus on five key priorities:

1. Protecting, restoring, and enhancing the coast and wetlands: Restore resilience to coastal areas and nourish wetlands through major projects in the Mississippi River delta region and elsewhere in the five-state region.
2. Maintaining healthy, sustainable fisheries: Restore and sustain Gulf of Mexico fisheries through investments in science, technology, fishing fleet performance, and strategies to restore depleted fish populations and support sustainable long-term management.
3. Restoring and protecting coastal and marine habitats: Enhance key coastal and marine habitats like oyster reefs, seagrass beds, deepwater corals, and nesting sites for birds and turtles to strengthen and restore critical ecosystems services, such as shoreline protection, tourism, and fishing.
4. Shrinking the dead zone in the northern Gulf of Mexico: Implement nutrient reduction strategies in the Mississippi River watershed to reduce the size and duration of the hypoxia zone to improve marine health and increase fisheries productivity in the Gulf of Mexico.
5. Taking the pulse of the Gulf ecosystem: Create a permanently-funded, long-term Gulf of Mexico ecosystem monitoring and research program to provide the basis for adaptive management of coastal and marine natural resources.

Restoration in the Gulf must be well-managed. The restoration process should be based on a comprehensive, science-based ecosystem restoration strategy, supplemented by annual work plans, progress reports, and periodic requests for proposals. Relevant federal entities and all Gulf States should be active, full participants. The process should engage the public through a formal and recognized process that includes broad representation from communities and stakeholders in the region. Federal and state partners should commit to incorporating local and traditional knowledge in management decisions. The Natural Resource Damage Assessment and restoration process (NRDA) conducted in response to the BP oil disaster must be well-coordinated with the broader restoration planning functions of the Gulf Coast Ecosystem Restoration Task Force.

Stable funding will be critical to successful restoration. Congress should dedicate Clean Water Act penalties to fund restoration in the Gulf of Mexico, and the National Commission recommended that 80 percent of such penalties be dedicated to that purpose. This commitment should be done in a way that results in predictable funding streams that are consistent from year to year and sustained over the long-term. For example, an endowment should be established to support long-term research and monitoring needed to assess the health of the Gulf, evaluate the efficacy of restoration measures, and facilitate adaptive management. The funding stream from the endowment could also provide valuable support for the work of Gulf Coast research institutions, which are in a good position to make lasting contributions to the overall recovery of the Gulf ecosystem and economy.

²³ Office of Inspector General, U.S. Department of the Interior, *A New Horizon: Looking to the Future of the Bureau of Ocean Energy Management, Regulation and Enforcement* (Dec. 2010), at 51.

²⁴ See *supra*, Part II(B)(3).

Restoration projects should be selected based on established criteria that clearly link projects to specific, measurable, feasible objectives. The selection and evaluation of projects should be subject to independent scientific peer review, and a comprehensive ecosystem restoration strategy should coordinate and integrate various restoration projects.

Gulf of Mexico restoration must embrace the whole ecosystem, from coasts and marshes under state jurisdictions to open blue-water environments managed by the federal government. It should include habitat protection and enhancements that provide long-term resiliency and sustainability for coastal communities, as well as rehabilitation of degraded natural resources and ecosystem services that provide sustainable economic opportunity and human uses.

Finally, successful restoration in the Gulf of Mexico will require long-term monitoring and management systems to help identify and address lingering oil spill injuries, evaluate the effectiveness of restoration projects, and make necessary adjustments. As noted above, Ocean Conservancy supports a permanent program that “takes the pulse of the Gulf” to track ecosystem health, identifies emerging problems, and facilitates solutions.

H. Our nation’s energy policy must include conservation programs.

Ocean Conservancy recognizes that additional energy development—consistent with the foregoing principles—must be part of this country’s overall energy policy. Any energy policy must also call for and incentivize conservation to reduce our overall energy demand. Congress should identify and support programs that effectively reduce consumer demand for hydrocarbons. These measures might include weatherization, alternative transportation, and other projects.

III. The Legislative Language in H.R. 1229, H.R. 1230, and H.R. 1231 Does Not Conform to the Principles for Safe and Responsible Energy Development.

The bills that are the subject of this hearing—H.R. 1229, H.R. 1230, and H.R. 1231—pursue a lop-sided approach that promotes energy development without ensuring that such development will be conducted in a way that maintains a healthy environment for present and future generations. This “full-steam ahead” path jeopardizes the health of ecosystems, as well as the people and businesses that depend on those ecosystems. The following section touches on some of the shortcomings of the three bills.

A. Shortcomings of H.R. 1229, the “Putting the Gulf of Mexico Back to Work Act”

H.R. 1229 proposes a series of amendments to the Outer Continental Shelf Lands Act (OCSLA) intended to hasten Secretarial approval of drilling permits by imposing limits on the Secretary’s ability to delay or deny approval of such permits, and by declaring that permits would be “deemed approved” if the Secretary does not issue a decision within 60 days. These proposed deadlines would interfere with—or make impossible—BOEMRE’s ability to conduct thorough, site-specific environmental analyses of drilling projects, or to ensure adequate oil spill preparedness and response capability. These deadlines would effectively elevate production above safety and environmental concerns, risking another BP Deepwater Horizon-type incident.

In addition, this legislation proposes limits on judicial review of energy projects in the Gulf of Mexico. These limits are designed to discourage litigation that might slow down energy development. Insulating BOEMRE from scrutiny and encouraging the agency to rush critical environmental analyses and spill plan review simply sets the stage for the kind of lax regulatory culture that made possible the BP disaster.

B. Shortcomings of H.R. 1230, the “Restarting American Offshore Leasing Now Act”

H.R. 1230 would require certain lease sales in the Gulf of Mexico and off the Coast of Virginia. It would require the Secretary of the Interior to hold Lease Sale 216 in the Central Gulf of Mexico within four months after enactment, Lease Sale 218 in the Western Gulf of Mexico within eight months after enactment, and Lease Sale 222 in the Central Gulf by June 1, 2012. For all these sales, the Act deems pre-existing NEPA analyses sufficient—even though those reviews took place before the BP Deepwater Horizon disaster. The proposed legislation would also require the Secretary to hold Lease Sale 220, off the coast of Virginia, no later than one year after enactment.

By forcing lease sales in quick succession, this legislation would place a burden on BOEMRE that would likely only be met by conducting the most cursory reviews and superficial analyses. More importantly, this legislation subverts the NEPA process. It would deny BOEMRE the opportunity to conduct a thorough and specific environmental review—including more comprehensive worst-case discharge analyses—and would deny the public the opportunity to learn about and comment on the lease

sales. Shortcutting the environmental review process increases risks. In fact, H.R. 1229 would effectively eliminate BOEMRE's ability to conduct a rigorous site-specific analysis of environmental impacts at the drilling stage.

C. Shortcomings of H.R. 1231, the "Reversing President Obama's Offshore Moratorium Act"

H.R. 1231 would amend section 18 of the Outer Continental Shelf Lands Act by requiring the Secretary to open certain portions of planning areas to oil and gas leasing and open other areas as requested by state governors. It would also require the Secretary to establish production goals, set specific production goals for the 2012–2017 five-year OCS leasing program, and require annual progress reports. The Act would also require the Secretary to establish regulations for the issuance of "seismic surveying cost credits," equal in value to 50 percent of the costs of the survey.

This legislation would effectively force BOEMRE to offer for lease sweeping areas of the OCS. In so doing, it would make it difficult for the agency to conduct any meaningful, site-specific analysis of the potential environmental impacts and risks of oil and gas activity. Moreover, by flooding the market with OCS leases, it could reduce competition and lower bids for OCS areas—diminishing returns to taxpayers. The last section of the bill also would harm the American public by forcing taxpayers to foot half the bill for certain oil and gas exploration costs. Oil and gas companies do not need this subsidy, and taxpayers should not have to give their earnings to some of the most profitable corporations on the planet.

IV. The Path Forward: Legislation to Ensure Safer, More Responsible Energy Development and Restoration of the Gulf of Mexico.

As noted at the outset, intact and diverse ocean ecosystems are critical for human health and support a wide array of jobs and businesses. The amendments proposed in H.R. 1229, H.R. 1230, and H.R. 1231 fail to provide critical protections. In contrast, Ocean Conservancy supports legislation that will promote energy development "done right": legislation that will not only lead to new sources of energy, but will provide the science, safety, and environmental safeguards necessary to ensure clean, healthy ecosystems today and in the future. Ranking Member Markey has introduced H.R. 501 the Implementing the Recommendation of the BP Oil Spill Commission Act of 2011. We urge the Committee to take up H.R. 501 which addresses many of the chronic regulatory problems that led to the Deepwater Horizon disaster and would ensure that energy development occurs in a responsible manner that would protect our oceans and coasts and the businesses and economies that depend on them.

The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling recommended a series of reforms to this country's administration of OCS oil and gas activities. For example, the Commission recognized the need for science-based decision-making and argued: "To ensure that offshore oil and gas development and production proceed in ways that minimize adverse impacts to the natural and human environment, decisions about these activities must be grounded in strong science."²⁵ It also recognized the need for other federal agencies (beyond BOEMRE) to participate in scientific research, environmental review, and other parts of the OCS process.²⁶ The Commission recommendations called for changes in regulatory processes, including changes in BOEMRE's NEPA processes and incorporation of "the 'worst-case scenario' calculations from industry oil spill response plans" into NEPA analyses.²⁷ They also recommended that NOAA provide advice on especially sensitive areas "that should be excluded from the leasing program or treated in a specific manner due to their ecological sensitivity or for other reasons."²⁸ The Commission recommended new safety and regulatory standards for OCS activities and more rigorous oil spill response planning and preparedness.²⁹ In addition, the Commission recommended funding Gulf of Mexico restoration work with 80 percent of the penalties associated with the Deepwater Horizon disaster.³⁰ Ocean Conservancy believes that the Commission's recommendations—if fully implemented by government and industry—would address many of the flaws in the existing system.

In addition to supporting comprehensive OCS oil and gas reform legislation as envisioned by the National Commission, Ocean Conservancy supports specific legislative priorities that would advance energy development while at the same time main-

²⁵ National Commission Report at 263.

²⁶ *Id.* at 264, 265.

²⁷ *Id.* at 267.

²⁸ *Id.*

²⁹ See, e.g., *id.* at 252–53, 265.

³⁰ *Id.* at 280.

taining a healthy environment for this and future generations. Specifically, Ocean Conservancy supports:

- (1) Targeted changes to the Oil Pollution Act of 1990 (OPA 90) that would increase funding available to the U.S. Coast Guard for annual operating expenses; establish minimum funding levels for Coast Guard operating expenses related to the implementation, administration, and enforcement of area contingency plans and facility response plans for oil spills; and establish minimum funding levels for Coast Guard operating expenses related to operations in the Arctic Ocean, where current capacity is extremely limited.
- (2) Establishment of an Arctic scientific research and monitoring program to be administered by the North Pacific Research Board, in cooperation with the U.S. Arctic Research Commission. At present, our understanding of Arctic ecosystems is limited; and our lack of knowledge precludes informed decisions about whether to allow oil and gas operations, and if so under what conditions.
- (3) Comprehensive restoration for the Gulf of Mexico ecosystem and economies, using financial resources from the Natural Resource Damage Assessment and Clean Water Act penalties for programs and projects that include restoring coastal wetlands and marine habitats, long-term monitoring and research, shrinking the Gulf hypoxic ("dead") zones, improving fisheries and wildlife management throughout the Gulf, and enhancing critical nursery habitat and ecosystem services through oyster reef and seagrass restoration.

CONCLUSION

The United States must move forward with energy development, but we must "do it right." Any energy development must be guided by principles and practices that will ensure a safe, healthy environment for present and future generations. The bills that are the subject of this hearing do not clear that hurdle, and Ocean Conservancy cannot support them. We look forward to working with the Committee on future legislation that takes a more balanced and measured approach to energy development on the OCS.

Mr. LAMBORN. You had perfect timing. That is about as good as you can get. Thank you all for your testimony and for being here today.

At this point, I would like to ask unanimous consent for the gentleman from Virginia, Representative Wittman, a Member of the full Committee to participate in today's hearing.

Seeing no objection, so ordered.

We will now have our round of questions. Thank you all for being here. Each Member asking questions will have five minutes in which to do so. And I will go ahead and start.

Dr. Mason, in your testimony you state that OCS development would provide a long-term economic stimulus to the entire U.S. economy, not just the Gulf region. In my home state of Colorado that is something I am very interested in. For instance, you talk about—I will go ahead and zero in. According to the results of your study, do you believe that OCS production benefits would apply, not just to the coastal states, but to all 50 states? And if so, what are the economic benefits that all states would enjoy as a result of OCS development?

Dr. MASON. In an integrated economy, certainly the entire nation benefits from development in any one particular region. Development of the Outer Continental Shelf region will involve ships that may have to be built with steel that comes from steel mills in the Midwest or the South. Sometimes fabricated by construction workers in those regions. Food, we will have to feed people on those ships. That will be produced throughout the nation. Firms will can food, prepare it for delivery. All kinds of inputs go into these projects. Some people have called these projects floating cities that

have to be supported with all the means that you have in a typical home or hotel or anything else. So those means come from throughout the U.S. economy and the benefits spread out throughout the U.S. economy.

By my estimates, the total development of just the development of the Outer Continental Shelf region would drive about 250,000 additional jobs, just in the development phase, not the production phase. Once you start producing, of course, you are putting out oil. It needs to be refined. You need additional refineries. Those need to be built. The majority of refineries are in the Midwest. Those additional jobs and knock-on jobs would add about 1.2 million jobs per year for the life of those wells.

But instead, we are going in reverse, taking jobs out of the Gulf. And now we are also talking about taking jobs out of Section 199 deductions and dual capacity deductions for the industry to cost the U.S. about 154,000 by my estimate.

Mr. LAMBORN. OK, thank you for that answer.

Mr. Danos, we on this Committee are acutely aware of the economic hardships that have been facing not only thousands of Americans put out of work, but also businesses that rely on a robust Gulf production industry to provide energy for our nation, employ that workforce, and conduct day-to-day business.

In your testimony you stated that you have had to let some construction and logistical support workers go. Can you tell approximately how many you have had to release and in your opinion what circumstances put you in the position where you had to make that decision?

Mr. DANOS. What I know is that since the moratorium and since the slow down in permits and drilling in the Gulf of Mexico our company has released in excess of 200 jobs. And I would hasten to add that those jobs had faces attached to each one of them. So this slow down has had an impact. Many of these employees live in the communities that I live in and I see them regularly. And some of them have indicated to me that they would be glad to come back to work if our industry would get up and moving.

The uncertainty and the lack of permits and the lack of drilling has cost, not only my company but many companies jobs. And we feel that if this legislation was enacted, not only would we go back to work with these jobs, but more jobs would be created.

Mr. LAMBORN. Mr. Danos, are these good paying jobs that can support families?

Mr. DANOS. Absolutely. Many of our people that had these jobs were full-time workers. Some of their spouses worked as well. Some of them didn't. But they supported their families, contributed to our community, and contributed greatly to the lifestyle in our communities along the coast.

Mr. LAMBORN. Thank you for your answers. At this point I would like to yield to the Ranking Member from New Jersey for five minutes.

Mr. HOLT. Thank you, Mr. Chairman. Thank the witnesses.

I hardly know where to begin, but let me begin with our witness from Virginia. I can understand that Virginia may feel that it is in Virginia's interest to allow this drilling. I am not sure why Virginia would decide that, but I am wondering whether Virginia has

a yet unpublished method for training fish to observe state boundaries and whether Virginia has a permanent fence or boom that separates its waters from North Carolina and Delaware and New Jersey?

As we have seen in the Gulf where you have got Texas and Louisiana and Mississippi and Alabama and Florida, the fish, whether they are breeding or feeding don't seem to recognize state boundaries, nor do oil slicks. The territory that you are talking about drilling in Virginia is less than one day's oil slick travel away from New Jersey, the state that I represent. And I can tell you that this is not just a decision that Virginia makes.

So let me ask what consideration of neighboring states have you put into your call, Mr. Domenech for drilling off of Virginia?

Mr. DOMENECH. Thank you for the question.

Specifically, we have not had contact with our neighboring states. Of course, interestingly enough, we do manage our fisheries in cooperation with other states and the fish do cross state lines. In this case, of course, the law allows Virginia to have an identified portion of the Outer Continental Shelf. And we think there are some resources out there and there are great benefits to the economy and to jobs and to American energy security to develop those resources, both renewable and conventional.

Mr. HOLT. Let me ask that both the Department of Natural Resources that you head and the rest of the government and the state consult the neighboring states. This is not just a decision for a single state.

If I may turn to I guess first Mr. Danos. You talked about the economic dislocation, the hardship for a number of people. I believe it is the case that BP Company set aside \$100 million for rig workers affected. And because only a few hundred workers actually reported that they had been affected—that they were out of work and applied for these funds, BP has now kind of redefined that fund. Is that your understanding?

Mr. DANOS. I am not sure about the amount of money they set aside or who applied for it. What I do know is that our company has had to let go approximately 200 people. And that businesses such as mine are in turmoil and uncertain about the future. And when we are uncertain and when there is a lack of confidence in the business community, we are less likely to invest in job training and equipment and new jobs.

Mr. HOLT. I would suggest that you direct those workers to this BP fund. And I am wondering whether any of the witnesses would have anything to say about what I thought was glaring absent, which is the number of tourism workers, the number of fishers, fishing boat and other processing people who have lost their income, lost their jobs. The hotel construction and service—we talk about ship construction or oil rig construction. The hotel construction, the service industry—there is enormous economic loss in the Gulf of Mexico there.

Ms. WOGLOM. Ranking Member Holt, if I could address that question. Think you raise a great point. And I think that if we learn nothing else from the BP oil disaster we need to finally learn that a healthy coastal economy relies on a healthy ecosystem.

Mr. LAMBORN. OK. And thank you. Now the Chairman of the full Committee, Doc Hastings of Washington.

Mr. HASTINGS. Thank you, Mr. Chairman.

I would just respond to my friend from New Jersey that the question that you asked Mr. Danos will be a subject to the hearing we are having in Louisiana in a couple of weeks, so we are very concerned about that also.

I also want to make clear too because there has been allusion today about the fact that these bills will not make drilling safer, and I just want to point out that H.R. 1229 includes language that requires permitting by law and requires by law a safety review that includes containment. I point that out to say that is not in the law today. So to suggest that these bills ignore safety I think misses the point entirely.

Mr. Danos, there's been a lot of work in drafting these three bills by adding what we think is certainty into the process of developing these resources and ensuring, specifically in the Gulf of Mexico, that the delayed or canceled leases will be, if you will, re-permitted so that they can do what they were given before the delay was put into place. But also the three bills look at expanding OCS to those areas—now you alluded to this in your testimony—to those areas where we think the best resources are, which I think is efficiency.

So my question is pretty simple. You are a support industry. You are a medium-sized business. What impact would these three bills have then on your medium-sized business and service businesses like yours if these bills were to become law?

Mr. DANOS. If these bills became law, as I understand it, not only would we regain confidence and certainty so that we could begin planning and investing and reforming the jobs that were lost. But many companies such as ours recruit people from all over the country to come to work in our industry. And as we open up other areas in OCS, we would offer jobs, more jobs to more people. There is a great source of skill and available workers from the entire country. Many of them are willing to relocate. Many of them do not have to relocate.

Because of the nature of our work offshore, they work so many days at a location and they can return home. So this legislation would create some certainty, some confidence, and most importantly, some jobs.

Mr. HASTINGS. Thank you very much for that.

And Professor Mason, let me follow up on that because you have done a lot of work on the impact this has on the economy in that area. And Mr. Lamborn asked you about jobs nationwide. Let me be more specific. What would be the impact of job creation, specifically, would this have both short-term and long-term effects if these bills were to become law?

Dr. MASON. In the short-term, we are looking at something like 250,000 jobs from exploration and development. That includes initial surveys of the OCS, which haven't been carried out for many, many years. That also includes drawing test wells—things like that with all these functions that have to be carried out before we can even think about drilling a well for production. Those activities, by my estimate, will result in 250,000 jobs for a span of seven years

in the OCS regions that are currently offline today, that is not including the Gulf.

When we get into the production phase, as I said, you have the jobs involved in actually producing the oil. Also, refining that into petroleum products, chemicals, much of which occurs in New Jersey as well as Illinois and California. More refineries will be necessary to handle the flow. More flow will be forthcoming. Pipelines need to be operated, infrastructure built and operated. That will result, by my estimate, in about 1.2 million jobs for a 30-year average lifetime of a well. So the job benefits are very substantial.

And I just want to add that I don't think anyone would advocate here moving ahead without regard to safety. I have to say I would agree with Ms. Woglom's policy prescriptions. BOEM has moved forward with safety for spill response in approved projects. And I am assuming that the Virginia projects would go forward with those same restrictions. Nobody wants to move forward and have another *Deepwater Horizon*, but we do want to move forward. Thank you.

Mr. HASTINGS. I appreciate that. And in a slow economy like we have and hopefully we do have a recovery. Obviously, energy is an integral part of that. And energy jobs are good-paying jobs. I think they go very well together. And I might add just one other point in that regard. In an unstable world, it seems to me it is in the best interest of our country to be less dependent on foreign energy as we possibly can, especially when we are sitting on the known resources that we have. So thank you very much for your courtesy. I appreciate it.

Mr. LAMBORN. I thank the gentleman. And I would like to recognize now the gentlelady from Massachusetts, Representative Tsongas.

Ms. TSONGAS. Thank you, Mr. Chairman, and thank you all for your testimony here today.

As I have said before in this Committee, last summer like the rest of this country I was dismayed by the terrible environmental tragedy in the Gulf. And today as we consider these three bills I am again dismayed.

I am dismayed that rather than putting in place new safety and environmental protections the bills being considered today are rushing ahead and taking unnecessary risks with the environment and the economy. I am particularly concerned with H.R. 1231, which would effectively force the Department of the Interior to open areas off both the East and West Coast to more drilling. This could have a devastating effect on areas off the coast of my home state of Massachusetts.

Massachusetts is home to Georges Bank, which has been at the heart of the New England fishing industry and has historically been one of the country's most productive fishing grounds. Income from Massachusetts fisheries have been valued at approximately \$350 million annually and 130,000 jobs depend on the Massachusetts fishing industry. Allowing oil and gas drilling Georges Bank or anywhere in the northeast would threaten to destroy these rich fishing grounds and could have a devastating effect on my state's economic.

Ms. Woglom, is there anything in these three bills that require safer drilling or that will ensure that the areas off of Georges Bank will be protected from an oil spill should these areas be opened up to oil and gas drilling?

Ms. WOGLOM. Thank you for the question, Congresswoman.

I think our concerns are that, in fact, in the wake of the BP oil spill the National Bipartisan Coastal Commission found that there were systemic flaws and problems that led us to not anticipate, not be prepared for, and not be able to respond to the oil spill that happened. And our view of these bills that this Committee is considering today is that they, in fact, are not only rushing ahead, but in fact going backwards in terms of shortcutting environmental review, not making the systemic fundamental reforms that the Westville Commission recommended in terms of improving regulatory oversight and environmental safety and concerns.

Ms. TSONGAS. Thank you for your response. And I think what we all want to see is the capacity to move ahead economically, but the certainty we need is not simply around what businesses can do or not do. Also, as you undertake your important economic activities, there needs to be certainty around the protection of the environment that is necessarily impacted as you undertake some deep-water drilling.

So my hope is that instead of passing the bills before us, that we will instead pass H.R. 501, which our Ranking Member Markey has introduced and which would implement the recommendations of the BP Commission, as you suggest, are not being heeded in the current legislation before us.

Also, I would like to say it is inconceivable that we would continue to allow drilling to take place in our public waterways without oil companies unequivocally demonstrating the ability to prevent, mitigate, or clean up in the event of an oil spill. In testimony before this Committee we learned that tragically insufficient oversight took place at the BP site and that in recent years important environment regulations were inappropriately waived on behalf of BP.

With this in mind, I am disappointed that my colleagues are putting forward legislation like H.R. 1229 that would rush the agency to make critical decisions about safety and the environment and that it would deem permits approved without the proper oversight and review.

As you have put, Ms. Woglom, in your testimony legislation like H.R. 1229 would "set the stage for the kind of lax, regulatory culture that made possible the BP disaster." So I urge my colleagues to reconsider this legislation and instead put in place real reforms that make for a safer and cleaner drilling industry. Thank you.

Mr. LAMBORN. I thank the gentlelady. Next I would like to recognize for five minutes the gentleman from Louisiana, Representative Fleming.

Mr. FLEMING. Yes, thank you, Mr. Chairman and thank you panel.

Just a couple of opening comments. I find interesting some of the statements that are still echoing here today. One is those who oppose this legislation are suggesting that we should continue to have endless deadlines, endless lawsuits and a trickle of permits. And

also the idea that we would send our workers from Louisiana who are very strong in their work ethics to the BP fund to be paid instead of having good jobs I find is unbelievable.

The gentlelady from Massachusetts—her State of Massachusetts has a 40 percent import of their natural gas from Yemen, yet we are variable in Louisiana, a variable of Saudi Arabia of natural gas. So these things really don't add up.

But let us turn to what is happening in the economy. Gasoline at \$3.68, driving toward \$4 a gallon. Just the other day the Federal Reserve Chairman Ben Bernanke said, "Sustained rising in the prices of oil or other commodities would represent a threat, both to the economic growth and to overall price stability." And yet, we also have comments from the Administration, and this one I find very interesting. Secretary Chu told the Wall Street Journal that energy prices were the linchpin to an energy overall. He said, "Somehow we have to figure out how to boost the price of gasoline to the levels of Europe."

So I would suggest here today, and I there is a question embedded in this some place. I would suggest to you today that it seems that despite the rhetoric and even with the rhetoric that the Administration and all through it are working diligently to slow down domestic production of our hydrocarbons. And in fact, we now know that we have 1.3 trillion, with a "T", equivalent barrels of oil in both coal, natural gas, and oil. And yet, we can't get at it because we are continual stymied in doing that.

And I would say that, being from Louisiana, that the real imperative here is the loss of petroleum-related jobs, not the loss of the fishing job industries. That is recovering very nicely.

So my question is for Dr. Mason. In your study you point out that under the moratorium, not just the oil and gas jobs that are lost, but there are also related job losses in fields such as arts and entertainment, educational services, food services, health care, et cetera. I would like for you to comment on that, Dr. Mason.

Dr. MASON. Of course, oil workers themselves go out and buy things with their wages. They take care of their families and that is not just food. That is also medical care, daycare, education. In fact, about 40 percent of the job losses by the BEA's methods that I used in my study are in professional fields—teachers, attorneys, finance, insurance, and real estate. It is an integrated economy. It is not just about the wages that come from the workers directly on the oil platform. It is about where they spend that money and the people that depend on them and the people that depend on them and the people that depend on them throughout the entire U.S. economy.

The one aspect of my oral testimony I thought I would reemphasize is the issue before us is really regulatory rent-seeking. It was that the regulators ignored safety before the blow up and it is that we want them to pay attention to safety now, but in a way that also balances the industry. I am talking about this foreclosure settlement by the CFTB and we are requiring that banks get back to borrowers within 30 days with a modification decision. It is not a bad requirement.

Maybe 30 days is not the right set of days for this legislation. Let us talk about that, but there should be an accountability provision

to the industry to get back with an answer so that firms can make real business decisions, provide jobs, and economic growth.

Mr. FLEMING. Would you agree, Dr. Mason, that the fact the President has, or I would say the Interior Department has with President Obama's approval released now eight permits. And also his hand-selected panel of experts all of whom said there is no reason for a moratorium, wouldn't that implicitly suggest that there's no reason not to move forward with drilling?

Dr. MASON. I don't see a reason unless someone is disputing here the BOEM's approval of the response plans its now put into place. If there is something more that is necessary there, let us certainly put it in place. But it seems like we are building the framework for moving forward. It seems like BOEM is moving forward. Let us keep them moving forward and let us get back to where we were before the spill, which was talking about the OCS moving forward into those areas with safe technology that can meet the United States's energy needs.

Mr. FLEMING. Yes. Thank you. I yield back.

Mr. LAMBORN. Thank you. At this point, I would like to recognize the Ranking Member of the full Committee, who is with us today. And in lieu of being here earlier to present his opening statement, we will grant him his time at this time to give his opening statement for up to five minutes. Thank you.

**STATEMENT OF HON. EDWARD MARKEY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MASSACHUSETTS**

Mr. MARKEY. Thank you, Mr. Chairman, very much.

When the Challenger shuttle disaster occurred, Congress did not require NASA to launch in a rush another space shuttle within 60 days. After Hurricane Katrina, Congress did not require the Army Corps of Engineers to approve new levees within 60 days with the same failed designed.

Following the Three Mile Island nuclear disaster, Congress didn't direct the Nuclear Regulatory Commission to approve licenses for new nuclear facilities within 60 days. And after the BP oil spill, the worse environmental disaster in American history, we should not be legislatively mandating that the Interior Department get only 60 days to approve new drilling permits.

We should also not force the Department to use the same inadequate environment review to hold lease sales that had been scheduled prior to the BP spill. And we should not be opening vast new areas of coastlines on the East and West Coasts to drilling before implementing safety reforms recommended by the independent BP Commission. But that is exactly what the Republican majority is proposing today. This legislation will do nothing to improve the safety of offshore drilling and could instead send us down the same path that led us to the *Deepwater Horizon* disaster.

The Republican majority is continuing to operate with a pre-spill mentality. Following the BP oil spill, we should be reviewing the lessons, not lessen the review. The oil industry assurances and promises on which the Federal Government relied in formulating safety procedures were not worth the paper they were written on. They said blowouts could not happen. It did. They said the rig

would not sink. It did. They said the oil could be captured before it reached the shore. It was not.

The BP Spill Commission concluded that the causes of the BP spill were systemic to the entire industry. But the Republican majority continues to be in denial that reforms are needed to prevent a similar disaster happening again in the future. This Committee has not held a single legislative hearing on legislation to improve the safety of offshore drilling.

As part of today's hearing, the majority refused to also consider H.R. 501, the legislation that Representative Holt and I have introduced with other House Democrats to implement the reforms recommended by the BP Commission. The full Committee Chairman has also, so far, not allowed the request that I have made so that BP and Transocean and Haliburton and Cameron are heard here in this Committee on the spill, or for testimony from the CEOs of the top five major integrated oil companies who are most active in the Gulf. Those are the people who should be sitting at that table, telling us what they have done in order to make sure that we do not see a repetition of what happened last summer. So far, they are the only ones not allowed to come in here. They should have been the first ones and I am going to continue to insist that those CEOs come here and explain, through this Committee, to the American public what they have done to make sure that there will not be a repetition.

We don't need another hearing that pushes the same speed-over-safety attitudes that plagued BP and led to the worst oil spill in our nation's history. We don't need legislation that gives the Interior Department the same amount of time to review a drilling application as landlords give tenants to vacate an apartment. And we don't need another bill that ignores any attempts to end our addiction to oil and move to alternative energy like wind and solar and geothermal.

What we need is legislation that protects our oil industry workers, not the corporate special interests which seek a return to the old status quo. What we need is legislation that encourages innovation, not technological stagnation, and legislation that increases the safety of the oil industry, not just its profits. We need to encourage reforms that will prevent another disaster, not lead us backwards to a repetition of last summer's environmental disaster. Thank you, Mr. Chairman. I yield back the balance of my time.

Mr. LAMBORN. Thank you, and please stand by if you wish to ask questions in the next round, if you so desire.

At this point, I would like to recognize the next Member on our Subcommittee who was here when the gavel came down, Representative Fleischmann from the State of Tennessee.

Mr. FLEISCHMANN. Thank you, Mr. Chairman.

My first question, Secretary Domenech, can you please give us any insight, sir, as to the degree that this Administration has worked with you, Governor McDonnell and the Commonwealth of Virginia on the issue of oil and gas leasing? And has this Administration specifically sought input or comments from your agency on this matter as it applies to your state? Finally, if so, what actions have they taken with this information, sir?

Mr. DOMENECH. Thank you very much. As I mentioned in my opening remarks, we began an effort to have an offshore lease in Virginia in 2008. And that, of course, means a number of scoping and other kinds of meetings that are the regular due course of doing a lease. So there was early on a good amount of conversation between Interior and the Commonwealth on the issue.

However, once the *Deepwater Horizon* event occurred and the progression that I mentioned again where initially the President said we would have lease sale 2020. And then unfortunately it was canceled. And then not only canceled into the next five-year plan, but beyond the next five-year plan. We haven't really had a lot of contact with Interior about the leasing part.

Ironically, I would say we have an enormous amount of cooperation with Interior on offshore wind, which is something else we are pursuing. It is a very aggressive, back and forth conversation with them on some of the same lease areas that they would like to do offshore wind. So we have a two-track relationship with Interior at the moment.

Mr. FLEISCHMANN. Thank you, Mr. Secretary.

My next question is for Professor Mason. Professor, the Outer Continental Shelf, the OCS, leasing program brings in billions annually to the U.S. Treasury, sir. Have you done any analysis that you would be able to share with us today as to the economic impacts of delayed and scaled-back leasing under current OCS leasing programs?

Dr. MASON. That is a great question. Thank you very much.

My initial interest in this topic came about at a time during the financial crisis here when the State of California rejected \$5 billion in order to develop an existing platform and then turned to Washington for help because of their fiscal situation.

I think that these resources can help many states, particularly those affected by the crisis—California, Florida find their own way out of their own fiscal crisis. I have estimated that in the short run we are talking about something on the order of \$4.8 billion in state and local taxes that are being left on the table by not developing the OCS.

In the longer run, state and local tax revenue amounting to \$20 billion a year is on the table here. Federal tax revenue in the short run of \$11 billion in the short run, \$55 billion in the long run. And then that is with royalty revenue on top of that of almost \$14 billion a year. So there are substantial tax revenues and fiscal revenues that are left on the table here. I liken this discussion in my mind to a discussion of a worker who broke a leg and cannot work any more and is looking at their bank account saying, uh, it is going down a little faster than I would like. And the worker has a choice. They can either get back to work earlier when the leg might not be completely healed, or they can quite spending so much. And that is really the choice before us, and we have to decide when the healing is adequate and when we can get back, but also in the meantime if we are not going to get back right away reign in our spending. But that is the very real fiscal choice before us. Thank you.

Mr. FLEISCHMANN. Thank you, Professor. Mr. Chairman, I yield back.

Mr. LAMBORN. Thank you. AT this point, I would like to recognize the gentleman from Massachusetts for up to five minutes for questions.

Mr. MARKEY. Thank you, Mr. Chairman.

Secretary Domenech and Mr. Danos, the independent BP Commission issued a 400-page report making recommendations to the Congress to make legislative changes that could improve the environment for safety in offshore drilling. And while some of these reforms can be done administratively, there are many that have to be done legislatively.

So let me begin by just asking the two of you do you believe that \$75 million as a penalty for the kind of spill that we saw in the Gulf is high enough or should it be higher?

Mr. DANOS. I am familiar with the Commission report, generally.

Mr. MARKEY. So is \$75 million high enough or should there be a higher fine that an oil company is assessed in the event of an accident like the one that we saw?

Mr. DANOS. What I think is that—

Mr. MARKEY. Is it high enough is what I am saying.

Mr. DANOS. What I believe and what I know is that anything that adds additional costs—

Mr. MARKEY. Is it high enough or not too high, just yes or no?

Mr. DANOS. I cannot comment if it is high enough or not high enough, other than any penalties and anything that Congress does to add costs—

Mr. MARKEY. I appreciate that, but don't you need a deterrent as well? Don't you need to ensure that they understand that there is a price that they can pay? You don't want to go there? OK,

Mr. Domenech? Yes.

Mr. DOMENECH. I don't have an opinion on that. I am not an expert in that area. Of course, that is a fine that the Federal Government does.

Mr. MARKEY. OK. How about you Ms. Woglom? Do you have an opinion, Ms. Woglom?

Ms. WOGLOM. Yes, we think that the oil companies should be fully responsible for the damages that they cause.

Mr. MARKEY. This is just making sure that oil companies are held responsible and that they also have a big stake in making sure that safety is built into all of the devices and the prices that they have.

Dr. Mason, do you think it should be higher?

Dr. MASON. Potentially higher. Yes.

Mr. MARKEY. OK.

Dr. MASON. I agree with Ms. Woglom. They should cover the cost of the damages, but I think you were specifically talking about a fine or a penalty. I think a higher penalty would be access. I have a problem that BP was the first to be allowed back in with deep-water drilling permits.

Mr. MARKEY. Thank you for that comment as well. I would hope that perhaps the first two witnesses who appear not to be familiar with the subject would perhaps in writing give us an answer to that question.

From 2004 to 2005 to 2009, while the fatalities in the offshore oil and gas industry were more than four times higher per person

hours worked in the United States's waters than in European waters, even though many of the same companies worked in both venues. Given that it is four times more deadly to work offshore in U.S. waters then the Commission found that safety problems were systemic and that not a single new safety measure had been enacted into law since the BP disaster, do you think Secretary Domenech and Mr. Danos that we should first ensure that offshore drilling operations are safe in order to protect the lives of the workers since it is four times more dangerous to work in the Gulf of Mexico in our rigs than on the European rigs out at the same distance? Don't you think it is wise for us to pass that safety legislation?

Mr. DOMENECH. Working on offshore rigs should be as safe as possible. Yes.

Mr. MARKEY. So do you think we should try to aspire to be the most safe in the world rather in the industrialized world the least safe?

Mr. DOMENECH. Whatever the industry standard is. I don't know exactly. I am not familiar with safety standards.

Mr. MARKEY. You are not familiar with safety standards. Are you familiar with safety standards, sir? Mr. Danos?

Mr. DANOS. What I know is our company is committed—we have a value, not a priority, but a company value to work safe and we have an outstanding record.

Mr. MARKEY. As an industry, though, and you are here representing the whole industry, it is four times more dangerous than drilling off of the coast of Europe. Are you happy with that measure for the whole industry—not you, the whole industry.

Mr. DANOS. Our commitment personally as a company.

Mr. MARKEY. No, not you personally. I am saying you are good and obviously you must have dragged the average up to only four times worse, if you are the best. Do you want the others to have to meet your very high standards so that we actually can guarantee the workers that they are protected?

Mr. DANOS. We would support safety standards to the highest means.

Mr. MARKEY. Good. Thank you. How about you, Ms. Woglom, would you support that.

Ms. WOGLOM. Absolutely. I think the BP oil disaster showed that we had systemic failure both in terms of our safety and environment.

Mr. MARKEY. That should be our goal—the highest standards. And I agree with Mr. Danos. That should be the goal of the Committee and we have done nothing, thus far, to meet the highest standards. So thank you. And I yield back.

Mr. LAMBORN. Thank you. The gentleman from Ohio, Mr. Johnson is recognized for five minutes to ask questions.

Mr. JOHNSON. Thank you, Mr. Chairman, and thank you all to the witnesses for taking the time to be with us to testify.

I represent eastern and southern Ohio. And when I left the district on Monday gas prices were headed toward \$4 a gallon and my constituents are justifiably worried that as gas prices continue to rise and the slow economy recovery that we are experiencing this is going to slow down or worse yet stop altogether our energy

progress. That is why I am a co-sponsor of all three of the bills before the Committee today that will expand offshore American energy production and stop the Obama Administration from blocking access to our nation's natural resources.

And I want to affirm the comments from our Chairman, Chairman Hastings, that failure to begin immediately to access those resources have, in my opinion, very serious national security implications. Last week we heard from Director Bromwich from BOEM and he gave, in my estimation, an insufficient justification for the long wait time for getting a permit approved. That is why I think H.R. 1229, The Putting the Gulf of Mexico Back to Work Act is so important. Businesses need certainty to move forward with capital investment plans. And with H.R. 1229 corporations would know within 30 days of whether or not they are able to go forward with their drilling plans. America's future generations will continue to be dependent on foreign sources of oil if we do not unleash America's natural resources.

Now regrettably, I must challenge my colleague from Massachusetts assertion that the *Deepwater Horizon* event and the government's response afterwards could reasonably be compared to the space shuttle Challenger or to the Hurricane Katrina events. It would be different if the *Deepwater Horizon* event were just the start of the regulatory roadblocks by the Obama Administration that have hampered our movement forward with tapping into America's resources. But rather it served as an accelerate of an already reckless energy policy were we have seen a systematic decline in the number of permit approvals.

Specifically, though, I have a couple of questions for Mr. Danos. Mr. Danos, your company has operations across the globe, what are the differences that you see in the regulatory processes and the ability to operate in foreign countries compared to the United States.

Mr. DANOS. In some of the areas that we work there are some challenging regulatory processes, but most of them are not nearly as comprehensive on the personnel safety and environmental side as the regulatory processes are in the Gulf of Mexico. So what I would say is that we are held to higher standards in the Gulf of Mexico from a safety and environmental standpoint than we are in other parts of the world.

Mr. JOHNSON. I am certainly OK with being held to a higher standard of safety. I also think that America should be thriving to be number one in production and be the energy leader rather than falling behind and having to be so self-sufficient on foreign countries for our resources.

Do you feel that other countries have policies in place that allow them easier access to develop their own domestic resources than here in the United States?

Mr. DANOS. What I can tell you Congressman is that there are many people down in south Louisiana in my part of the country that know we have the capabilities, know that we have the natural resources, know that we have the wherewithal within this country to be less dependent on foreign oil and are puzzled. And they often ask me why is it that we have these capabilities to create jobs, to

become more energy independent and yet we aren't doing it and it is easier in other countries.

Mr. JOHNSON. I am running out of time, so I hate to cut you off there because what you just said points out when we questioned Secretary Salazar a couple of weeks ago we asked the question there what are we going to do about these \$4 gas prices? And his comment was that oil is an international commodity and America has very little influence over the price of oil. And it was my assertion then and remains so now that we are essentially sitting here with our hands behind our back taking a wait and see approach while the rest of the world is moving forward. And I submit that that is a failed energy policy with very serious national security implications. And I urge that we move forward. I yield back.

Mr. LAMBORN. I thank the gentleman. Next we will hear from another Member of our Subcommittee, Representative Landry from Louisiana.

Mr. LANDRY. Thank you, Mr. Chairman. I would like to recognize again Mr. Danos is not only a solid business owner in my district, but a constituent as well.

For the record, it was my understanding that the gentleman from Massachusetts made a statement that the *Deepwater Horizon* accident was the largest oil spill in U.S. history and that is not the case. The largest oil spill in U.S. history was in 1910. It was the Lakeview Gusher, which spilled twice the amount of oil that the *Deepwater Horizon* spilled, so I would like to make sure we have that on the record.

Also, the gentleman from Massachusetts continues to talk about safety. The Transportation and Infrastructure Committee has jurisdiction over the safety portion of the industry in the Gulf of Mexico. And what the gentleman fails to tell you that he is after a liability issue. And so Mr. Danos, you do a lot of work for shallow water drilling contractors and companies, is that correct?

Mr. DANOS. Yes, sir.

Mr. LANDRY. OK, could you tell me what would happen if they removed the liability cap on the shelf for those oil and gas companies because those oil and gas companies are small oil and gas companies, am I correct?

Mr. DANOS. That is correct. My understanding that if the liability cap was removed that there would be more wells shut in and shut-down and less production in the Shelf in the Gulf of Mexico.

Mr. LANDRY. Right. OK, so it would basically destroy the shallow water drilling industry is what it would do?

Mr. DANOS. It could.

Mr. LANDRY. It could? OK. Thank you.

Ms. Woglom, you are a big tourism advocate. I mean you think that, and I agree with you. I like to travel. Particularly, in Florida I guess you would like to see the tourism industry grow, is that correct?

Ms. WOGLOM. I think we are simply saying that there are a multitude of economies in the Gulf that we need to be paying attention to.

Mr. LANDRY. Right. But you would say tourism is an important industry, is that correct?

Ms. WOGLOM. Certainly, we think tourism and fishing.

Mr. LANDRY. Could you tell me what high energy prices do to tourism?

Ms. WOGLOM. You know, I am concerned about——

Mr. LANDRY. No, no. The question is pretty direct. I mean you tell me what \$5 gas does to tourism in Florida.

Ms. WOGLOM. What I can tell you is that we cannot drill our way to lower gas prices.

Mr. LANDRY. Can you tell me how we get tourism into Florida, other than flying them in? Have they invented an electric plane yet?

Mr. WOGLOM. What I can tell you is that the government's own figures show that gas prices are largely unrelated to domestic offshore oil production.

Mr. LANDRY. Really? OK, that is a supply and demand question. I would love to have that argument with you. I am going to run out a little bit of time, but I would like to point out something else. Do you know, because last week we had a number of witnesses and even Director Bromwich wasn't able to answer this for me, but do you know under what safety and environmental guidelines Petrobras drills? Do you know what they are required?

Ms. WOGLOM. I am not familiar with it.

Mr. LANDRY. Because you know they are getting ready to drill in Cuba, right off the coast of Cuba. That is pretty close to Florida. Would you be concerned—you haven't looked up to see what requirements they are going to need to meet?

Ms. WOGLOM. I wouldn't suggest that a lack of safety requirements in Cuba should suggest that we should have a lack of safety and environmental review in the U.S.

Mr. LANDRY. OK. And last, Dr. Mason, the economic situation in the Gulf of Mexico, would you consider that robust?

Dr. MASON. The economic losses in the Gulf of Mexico?

Mr. LANDRY. The situation economically in the Gulf of Mexico in regards to the oil and gas industry right now do we have a robust economy in the Gulf of Mexico?

Dr. MASON. We had a robust economy before the moratorium came along and shut it down unnecessarily during a recession. In fact, there was a great Wall Street Journal report reviewing FedBiz evidence. It showed that regions with strong manufacturing were largely insulated from the effects of the recession.

Mr. LANDRY. Great. So it is not robust, but would you say that our domestic energy policy currently is a robust energy policy?

Dr. MASON. Our energy policy really is not sustainable. I see, going back to the analogy with the space shuttle Challenger, there was a very clear desire to launch another space shuttle after that. I don't see a clear desire to drill another well here. It seems like if anything there's a desire to shut down the entire industry and that is why we are not only shutting it down with the Gulf moratorium, but trying to tax it out of existence with Section 199 and dual capacity. And then, of course, trying to keep the OCS shut down and scale it back further and further, which brings us back to rent-seeking, which is crucial here.

Removing the regulator from a rent-seeker from the private sector to a rent-seeker from politicians. And in my opinion, I see a clear, very dangerous path in energy policy right now for rent-seek-

ing from wind developers, battery manufacturers, solar panel manufacturers to get them in the pockets of politicians and regulators in the same way that the oil companies used to be.

There are rents on the line here. Let us be very, very careful with policy moving forward so that it can be economically meaningful.

Mr. LANDRY. Than you so much. I yield back.

Mr. LAMBORN. Thank you. Before we hear from our last Member, I just want to remind Members of the Committee and the public at large that jurisdiction of liability issues in the Gulf of Mexico is under the Transportation and Infrastructure Committee, not this Committee, Natural Resources.

OK, with that, I would like to recognize for our last Member to ask questions Representative Wittman from the State of Virginia.

Mr. WITTMAN. Thank you, Mr. Chairman. And members of the panel thank you so much for joining us today.

I want to begin with Secretary Domenech and pose this question to you. I know you are aware of Virginia. And you know in Yorktown our only refinery in Virginia just recently shut down. We have been working, obviously, to try to get it reopened. It is a refinery that is critical to the economy there in the region. It employs several hundred highly skilled professionals, both production professionals, also chemical engineers that run that plant.

Obviously, it was a concern to us as it closed down. But as you look at this total picture, you look at energy production and you also look at the ability to refine products that are here in the United States. I want to cast a broader perspective on this and ask you, do you know that at that refinery in Yorktown do you know where the raw products came in for that refinery to produce?

Mr. DOMENECH. I am afraid I do not.

Mr. WITTMAN. OK. Those approximately 63,000 gallons of crude oil a day that they produced actually came from foreign nations. It came from Canada, the North Sea, South America, and the Middle East. So it closed for economic reasons. And one of the economic reasons was the cost of production. So they weren't able to compete with refined products that were being actually imported. As you see today, we have a higher percentage of refined products being imported into the United States than at any time in the past.

So my concern is, is that as that production capacity goes away that creates some concerns for us. And there was a study done by the Southern Energy Alliance that essentially said off the Virginia shore about a half a billion gallons of crude oil and about 2.5 trillion cubic feet of natural gas. Obviously, a significant resource there that I believe we can produce safely. And we have a refinery right there on the Virginia shores to be able to refine that. And I wanted to ask this. While it is no guarantee as where refineries get their feed stocks, if we were able to develop those offshore energy resources off of Virginia, do you believe that this would be a factor in allowing the Yorktown refinery in the future to open up its refining capacity again? And how would that affect Virginia as far as Virginia's energy independence.

Mr. DOMENECH. Thank you for the question.

Yes, we do think that that refinery would be reactivated and people rehired at that location. As you say, every company gets to ship

its crude to a different location and so it is likely that some of that might end up in New Jersey and other locations that have refineries. But we do think that that is one way to get that refinery up and running as well as establish a whole new industry infrastructure there in our port facility.

Mr. WITTMAN. Very good. I wanted to use that as the baseline for a perspective about a domestic energy production and then look at policies elsewhere.

If you listen to the Administration, you heard recently about them touting production of offshore energy, specifically oil off the coast of Brazil. How do you believe that direction in policy equates to the lack of direction in policy on developing offshore energy resources, specifically hydrocarbons off the United States?

Mr. DOMENECH. We also were a little surprised to hear the President talk that way in Brazil and at the same time telling us in Virginia that we were not going to be allowed to proceed with the sale that had already been approved by Interior and with a green light from the President. And now put off until beyond 2017. So it was ironic for us to hear him say that.

Mr. WITTMAN. One other question. I want to again, talking about now the foreign production and the encouragement of foreign production, the lack of direction or comprehensive energy policy that includes the development of domestic offshore energy, specifically hydrocarbons, how do you see the long-term nature of our energy policy with the continued reliance of foreign sources? Do you believe in relation to what Virginia has to offer, do you believe that is a viable, sustainable, efficient energy policy for this country?

Mr. DOMENECH. I do think Virginia's production is part of a basket of production that we could contribute to and it is the best way for us to get off of foreign sources of oil. If I might, on Friday I attended my son's Army Ranger graduation at Fort Benning. And I have to admit I thought while I was there about sending all these young men off to wars in foreign locations when we could be producing that energy here in the U.S.

Mr. WITTMAN. All right.

Mr. LAMBORN. Thank you for your questions. And I want to thank each member of the panel for being here today and for your testimony. Please bear in mind that Members of the Committee might have additional questions for you for the record and I would ask that you respond to these in writing, should you receive those.

If there is no further business—

Mr. HASTINGS. Mr. Chairman, I do have some questions I would like to submit to ask for written responses from the witnesses, if I may.

And if I may ask of you, I would ask that before we proceed any further with this legislation that we schedule some hearings to draw lessons from the shocking experiences of last summer of last year. Thank you.

Mr. LAMBORN. OK, I would be happy to take that under advisement. And if there is no other business, this Subcommittee stands adjourned.

[Whereupon, at 11:44 a.m., the Subcommittee was adjourned.]