

STATEMENT OF DAVID J. HAYES,

DEPUTY SECRETARY UNITED STATES DEPARTMENT OF THE INTERIOR

BEFORE THE COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

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Mr. Chairman,

Thank you for the opportunity to testify on the issue of America's natural gas supply. My remarks today will focus on the Department of the Interior's efforts to enhance our nation's future natural gas supplies. However, I would like to discuss first some of our efforts with respect to enhancing our domestic energy supplies in general.

As you are aware, the Administration believes that the best interest of the American people and the oil and gas industry is served by a balanced policy consisting of promoting exploration and development where appropriate, protecting our natural heritage and biodiversity, and fostering conservation and the development of alternative energy sources. In that regard, the Administration is supportive of the U.S. domestic oil and gas industry. We have supported efforts to increase oil and natural gas recovery in the deep waters of the Gulf of Mexico; we have conducted a number of extremely successful, environmentally sound off-shore oil and gas lease sales; and we have opened a portion of the National Petroleum Reserve-Alaska (NPR-A) to environmentally responsible oil and gas development, where an estimated 10 trillion cubic feet (tcf) of recoverable natural gas resources lie in the northeast section of the reserve.

The Department of the Interior administers the leasing program for both offshore and onshore Federal lands. Overall, domestic production of oil has gone down since 1989, due largely to the price of oil on the world market. In this same period, production on Federal and Indian lands has increased and, as of 1999, accounted for 25 percent of domestic production, up from 13 percent in 1992. We have seen great successes on the Outer Continental Shelf (OCS) and have implemented policies to encourage continued production of onshore wells on Federal lands. For example, with respect to the OCS, the OCS Oil and Gas Leasing Program for 1997 to 2002 is an important step in the process to ensure a reliable supply of domestic oil and natural gas resources. And the statistics from the program are impressive --

- The combination of technological advances and legislative incentives like the Deep Water Royalty Relief Act (DWRRA) caused leasing in the Gulf of Mexico to increase almost ten fold between 1992 and 1997.
- From 1993 to 1999, 6,538 new leases were issued covering approximately 35 million acres of the OCS.
- More than 40 million acres of Federal OCS are currently under lease. Approximately 94% of the existing OCS leases (7,900) are in the Gulf, and about 1,500 of these leases are producing.
- Lease Sale 175 in the Central Gulf of Mexico, held on March 15, 2000, offered 4,203 blocks (22.29 million acres) for lease. We received 469 bids on 344 blocks. 334 leases were awarded. It was the ninth OCS lease sale held subject to the DWRRA.
- On August 23, 2000, the Minerals Management Service (MMS) is scheduled to hold Sale 177. This will be the fifth OCS sale in the Western GOM (offshore Texas and in deeper waters offshore Louisiana), and the tenth sale overall, in which blocks receiving bids in water depths of 200 meters or more are eligible for consideration under provisions of the DWRRA. Of the 3,789 available blocks encompassing about 20.61 million acres in the Western GOM OCS Planning Area, 2,152 blocks are in water depths greater than 200 meters.

- The proposed Eastern Gulf of Mexico sale (Sale 181, December 2001) recognizes the high potential for the development of the significant natural gas resources in the area and the potential for an extension of deepwater development.
- We are currently examining incentives authorized under the Deep Water Royalty Relief Act to ensure continued development of deepwater resources.

However, our efforts have not been confined to Federal offshore resources. The Bureau of Land Management (BLM) has taken a number of actions to encourage production on Federal onshore leases as well. Since 1993, BLM has -

- Issued over 28,000 leases and approved over 15,000 permits to drill.
- Completed an integrated activity plan/environmental impact statement for the northeast portion of the NPR-A. In 1999, the BLM held a lease sale offering 425 tracts on 3.9 million acres -- the first such sale for the reserve since 1984. Oil companies paid more than \$104 million in bids for the high potential oil and gas area.
- Implemented legislation changing the competitive lease term from 5 years to 10 years, allowing lessees greater flexibility in exploration without endangering the lease.
- Concentrated its efforts on areas of greatest potential. BLM expects to process more than 1000 applications for permits to drill in the Powder River Basin this year with more than 7,000 wells expected in the next five years.
- Refocused its planning efforts to meet industry's exploration and production demands.

The BLM has over 160 land-use planning documents which provide for allocation of the different resources they manage. We are in the process of reassessing and revamping these documents. We believe this effort will provide greater certainty of access while reducing economic risks and the potential for litigation. During this review, we will reiterate need to ensure that stipulations attached to oil and gas leases are necessary and are based on scientific findings.

Our policies also have sought to provide economic relief to Federal onshore operators who have suffered during prolonged periods of low oil prices. BLM has provided royalty rate reductions for operators producing heavy crude to offset high costs of production. BLM also has provided royalty rate reductions for operators of stripper oil properties (leases producing less than 15 barrels per day) to provide an economic incentive to keep these properties in production. In 1998, a team representing BLM, MMS and DOE completed a study and recommended continuation of the program.

In addition, BLM and the Forest Service agreed to use one bond to cover liabilities for operations on Forest Service lands, eliminating the requirement that operators buy separate bonding for BLM and the Forest Service. At the same time, the agency has taken steps to protect sensitive areas and resources from inappropriate activities, resulting in a policy that has balanced the nation's need for energy with a clean environment.

We are proud of the Department's accomplishments in this area during the past 8 years. However, these efforts were pursued not only to address current needs, but also to set the stage to ensure that Federal lands will play an important role in meeting our nation's future energy needs.

Certainly natural gas will be a critical component of meeting those needs. Presently natural gas provides nearly a quarter of the Nation's energy needs. The Energy Information Agency (EIA), National Petroleum Council (NPC), Gas Research Institute (GRI), and others forecast significant increases in future domestic gas demand-- to as much as 29 trillion cubic feet (tcf) by 2010. The primary impetus for this dramatic increase in demand is the restructuring of electricity markets and the growing concerns regarding the potentially adverse impacts of burning other fossil fuels. The electricity-generating sector accounts for almost 50 percent of the projected increase in demand. Daniel Yergin and Thomas Robinson of Cambridge Energy Research Associates noted in a recent Washington Post article (July 21, 2000) the increasingly complex linkage existing between the electric power and natural gas industries. They

observe that 15 percent of our current electric generating capacity is fired by natural gas. However, almost 95 percent of proposed new generating capacity will be gas-fired.

Currently, the U.S. is mostly self-sufficient in meeting an annual domestic demand for 22 tcf, of which the United States imports 3.4 tcf almost exclusively from Canada . Federal lands have played a large role in helping meet our needs, producing about 11 percent of the natural gas produced onshore in the United States while the OCS currently accounts for more than 26 percent of domestic natural gas production, with the Gulf of Mexico OCS producing, on average, over 5.1 tcf of natural gas per year. We have seen nearly a 60 percent increase in the production of natural gas on Federal onshore lands over the past 7 years- from 1.3 tcf in 1992 to 2.0 tcf in 1999.

Despite these impressive statistics, it is clear the Nation and the natural gas industry face a daunting supply challenge. The depressed product prices of 1997 through early 1999 have resulted in a decline in domestic gas production capacity. Investments necessary for developing new gas supplies slowed dramatically in 1998 and 1999. Continued investment is critical to maintaining, let alone expanding production capacity. For example, nearly one-third of current Gulf of Mexico OCS production comes from completions less than one year old-- emphasizing that historical levels of activity must be maintained to even sustain present production levels.

The OCS has not been immune to these market forces. During recent years, natural gas production from the mature shallow waters of the Gulf of Mexico shelf, the backbone of this gas-producing province, has declined at an annual rate of 60 billion cubic feet (bcf) per year. During this same period, however, production from the deepwater slope has increased by an average of 77 bcf per year, more than offsetting the decline of the shelf. In 1999, deepwater production increased over 1998 levels by 350 bcf, reaching a total of 1 tcf.

More recently, natural gas prices have rebounded, and most analysts believe they will remain strong. The gas resource base of the United States and Canada is substantial. Higher price forecasts should stimulate increased investment in natural gas projects. The latest analyses by NPC, GRI and MMS, while differing in the details, all forecast significant increases in gas production from the Gulf of Mexico. The consensus is that for the early part of the century the Gulf of Mexico will represent the single largest source of incremental gas supply in North America.

GRI and MMS (aggressive case) each forecast Gulf of Mexico natural gas production in 2010 at approximately 6.7 tcf per year, with about 2.5 tcf of that production coming from the deeper water slope discoveries. Neither organization believes production levels from the Gulf of Mexico shelf will collapse, but instead expect the area to remain a focus of considerable industry activity for the next decade or more. The deepwater discoveries, however, form the cornerstone of the anticipated production gain, increasing from the current level of 1 tcf per year to about 2.5 tcf. NPC, on the other hand, predicts Gulf of Mexico production will reach 8.1 tcf in 2010, with 4.5 tcf coming from deepwater areas. Their forecast incorporates a marked decrease from the current volume of gas production from the shallow-water shelf.

There are several keys to meeting these forecasts: (1) natural gas prices that generate revenues sufficient for new investment; (2) continued emergence of new exploration and production technologies necessary to overcome the challenges posed by the emerging deep water frontier.

As a multiple use management agency, BLM is tasked with balancing varied demands for public land usage with conserving all of the resources for the American public. In line with these responsibilities, the agency is working diligently with the National Petroleum Council's task force to address industry concerns regarding access to natural gas, particularly in the Rocky Mountain region. The BLM has and will continue to make land available for leasing and assure that reasonable stipulations are applied to achieve maximum allowable development on public lands. Accordingly, we anticipate and, in several instances, industry is already experiencing, extensive development in a number of areas with known gas reserves.

The National Petroleum Council reported in its natural gas study that recent technology in exploration and production will play an integral role in meeting the growing demand for natural gas in this country. Evidence of the critical role of technology is demonstrated by the exploding production of coalbed methane. Only ten short years ago, coalbed methane was vented into the atmosphere as useless byproduct of more lucrative coal production. However, emerging technology has transformed this gas into a viable energy source. Much of the increase in production is seen in the Powder River Basin of Wyoming and the southern portion of Montana.

Estimates of recoverable gas reserves on public lands from this basin alone are as high as 9 trillion cubic feet. If maximum operating capacity of the current pipelines in the Powder River Basin is achieved, production could be as much as 1 billion cubic feet per day. That will produce enough fuel to heat nearly fifty thousand homes in the United States for twenty years. Industry is producing the gas and submitting applications for permits to drill at an unprecedented rate and, presently, there are more than 4,000 coalbed methane wells in the basin. Upon completion of further environmental analysis, we expect to nearly double that amount.

This concludes my written testimony. However, I would be pleased to answer any questions you or Members of the Committee might have at this time.