Subcommittee on Energy & Minerals Resources

House Committee on Natural Resources

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Legislative Hearing on *the Offshore Energy & Jobs Act*

Testimony of
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Thank you, Chairman Lamborn, Ranking Member Holt, and members of the Committee. I am Christopher Guith, Vice President for Policy at the Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and dedicated to promoting, protecting, and defending America's free enterprise system.

The mission of the Institute is to unify policymakers, regulators, business leaders, and the American public behind common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Committee, this Congress as a whole, and the administration.

I appreciate this opportunity to discuss the draft version of the *Offshore Energy & Jobs Act*. Offshore energy development has been unnecessarily constrained for several decades and across multiple administrations from both parties. I commend Chairman Hastings for continuing to push Congress to reconsider America's offshore energy policy, and frankly America's energy policy in toto.

While many in this country, and most inside the Beltway, are just waking up to the reality that the core assumption underlying our energy policy is no longer valid, to the extent it ever was, our energy policy is decades behind. The United States has the largest fossil fuel resource base in the world. Yet, our energy policy is based on the assumption that we are an energy poor nation that is subject to the whims of the world's energy exporters. Our energy policy must reflect the present and future reality, and the *Offshore Energy & Jobs Act* would help put us on the path towards that goal.

RESOURCE BASE

The United States is blessed with an extremely large oil and natural gas resource base. The federal government estimates the U.S. holds about 1.4 trillion barrels of oil and 2.7 quadrillion cubic feet of natural gas that are technically recoverable. At current consumption rates, that's enough oil to last over 200 years and natural gas to last 115 years. Moreover, that is a larger amount of oil than the world has consumed since commercial production began in the mid-19th century.

Like statistics in general, reserve estimates can be misconstrued or misused and require proper context. For example, as of 2010, the U.S. proved oil reserves were estimated at 23 billion barrels which amounts to roughly 3% of the world's proved reserves and would last less than five years at current consumption rates. So which is it? Do we have more than 200 years of oil or five? Actually, the real answer based on current assessments is we have 535 years worth of oil but not all of it is recoverable given current technology, oil prices, and access policy.

Proved reserves have a very specific definition, largely governed by Securities and Exchange Commission reporting requirements for energy companies. They include resources that have been discovered and can be recovered economically with a significant level of certainty. Proved reserves are a dynamic measure that fluctuate with the price of the resource and the availability and cost of technology with which it can be recovered.

In 1950, the U.S. proved oil reserves were 25.3 billion barrels of oil. Yet, between 1950 and 2012 the U.S. produced over 167 billion barrels of oil, or 660% more than the proved reserve of 1950.

The Bureau of Ocean Energy Management (BOEM) estimates that the U.S. Outer Continental Shelf (OCS) contains 90 billion barrels of oil and nearly 400 trillion cubic feet of natural gas that is undiscovered technically recoverable resources. These numbers are impressive or unimpressive depending upon the context. Not only do reserve estimates fluctuate based on financial conditions, but the availability and cost of improved technology alter the reserve estimates considerably.

Today, due to administrative withdrawal or legislative prohibition, more than 86% of the U.S. OCS is off-limits to any oil and natural gas production and, more importantly, exploration. The BOEM estimates are based on exploratory work done in the 1970s and 1980s, many generations of technology ago. Modern 3-D seismic graphing will invariably demonstrate much greater reserves in the OCS using modern technology and economic conditions.

This is precisely why the *Offshore Energy & Jobs Ac*t is vital to securing America's energy future. By increasing access to the OCS and establishing long-term production targets for the Department of Interior to plan around when formulating oil and gas leasing programs, the country can begin to systematically increase its energy security and reap the economic benefits that entails.

ECONOMIC IMPACT

The oil and natural gas industry is a tremendous economic growth engine that has represented one of the only positive growth industries over the Great Recession. One of the primary reasons is that this industry is labor intensive relative to most sectors of the economy. Additionally, the supply chain that supports this industry is quite long, stretching across the country to include states that do not even produce oil or natural gas. These characteristics are especially true in the offshore exploration and production segment of the industry.

Offshore development supports over 240,000 direct and indirect jobs across the country, but nowhere is this more evident than the Gulf Coast economy. IHS Global Insight estimated that in 2009 the offshore oil and natural gas industry represented 9.3% of total employment and 12% of the economy, and generated almost $6 billion in state and local taxes and over $13 billion in federal revenue.

Offshore development is the lifeblood of the Gulf region directly and indirectly supporting thousands of small businesses that would not exist without it. We saw just how closely the Gulf economy is tied to offshore development when in 2010 the Department of Interior effectively ceased offshore activities for over one year after the Macondo oil spill and by many measures has yet to reach a pre-spill rate of processing leasing programs and applications for permits to drill.

Precipitously shutting down 12% of the Gulf's economy has severe immediate impacts, many of which will continue to be felt for years to come. Dr. Joseph Mason at Louisiana State University initially estimated that just a six-month moratorium could result in a loss of more than $2.1 billion to the Gulf economy and more than 8,100 jobs.

While the Gulf Coast knows full well how bad federal policy can create devastating economic consequences, we also know that sound policy that allows greater production of our immense resources in a safe and environmentally safe manner can have tremendously beneficial impacts on the nation's economy.

REVENUE SHARING

Oil production from federal waters accounted from more than 20% of all U.S. production in 2012. More than 95% of that offshore production comes from the Gulf of Mexico. However, with limited exception, those coastal states receive less than 5% of the royalties the federal government receives from offshore development adjacent to those states.

However, states hosting oil and natural gas development on federal lands within their borders receive 50% of all royalties collected. While splitting the royalties onshore represents good policy, providing almost no share to adjacent coastal states is quite the opposite. The Gulf of Mexico Energy Security Act (GOMESA), which became law in 2006, created a new model for the sharing of federal royalties from offshore development with adjacent states in a very limited geographic area. This model should be expanded to all areas of federal offshore production, which is why we support the revenue sharing section of the *Offshore Energy & Jobs Act*.

This legislation follows the 37.5% allocation already established in GOMESA and would ensure the states who shoulder the largest burden of offshore oil and gas development receive an equitable share of federal revenues just like states that host onshore development on federal lands. The country owes a debt of gratitude to these offshore producing states for the economic and energy security benefits the entire country realizes and they should receive an equitable share of the federal revenue derived from those activities.

ENERGY SECURITY

The United States is in the midst of an unprecedented oil boom. In 2013 we are on track to exceed 7.5 million barrels per day of production, a level not seen in 24 years. The U.S. has witnessed more than a 40% increase in oil production since 2008 alone. While we are on a path to a more secure energy future where we are much more self-reliant, we still have a long way to go. At some point later this year, the U.S. is expected to see its domestic production outstrip imported oil. Each additional barrel of oil we produce is one less barrel that needs to be imported, and ensures nearly all of the money paid for that barrel of oil stays in the United States, as opposed to less than 5% as is the case of imports from some countries.

That we are only 50% dependent on imported oil after such massive increases in domestic production is illustrative of why we also need to increase offshore production. While onshore production has increased exponentially, and net US production continues to increase, offshore production has declined. Offshore production on federal lands in 2012 was about 10% lower than it was in 2009. The OCS represents a tremendous resource base which could fuel production much greater than current rates. However, more than 86% of the OCS is not available for lease. The *Offshore Energy & Jobs Act* would allow greater access to this resource by expanding access to areas that have been off limits for decades, including its explicit inclusion of Lease Sale 220 adjacent to Virginia.

Onshore production is quickly moving the country towards greater energy security, but we still have a long way to go. Responsibly increasing offshore production is the next important step towards less imported oil and less energy security risk.