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Testimony before the
Senate Energy and Natural Resources Committee
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Thank you Chairman Bingaman and Ranking Member Murkowski for the opportunity to testify. I will provide the Committee with some general thoughts on the legislation before you but would caveat my comments given the fact that I have not had an opportunity to fully analyze the legislation.

My name is David Welch and I am the President & CEO of Stone Energy Corporation. I am an engineer and economist by education and have been working in the oil and gas industry for thirty eight years. This includes a stint as an adjunct professor at Tulane University and five years working as a petroleum engineer and economist at the United States Geological Survey. In addition, I worked for 26 years at Amoco, and was absorbed into the merged BP Amoco for a short time, after which I went on to Stone Energy where I have been for the last six years.

Stone Energy is an independent oil and natural gas exploration and production company headquartered in Lafayette, Louisiana with additional offices in Houston, Texas and Morgantown, West Virginia and a soon to be opened office in New Orleans, Louisiana. We employ about 300 people and have a similar number of contract employees.

Stone employs people who have dedicated their lives to providing energy to a needful world. We employ people like Jerry Wenzel, a mechanical engineer by training who has overseen the safe and efficient development of multiple deepwater development projects as well as deepwater pipelines. We employ people like John Pantaleo and Jimmy Reed. John is our drilling manager who helped design the the dynamically positioned dual derrick drill ship with storage capacity now being used to capture oil from the spill. Jimmy Reed is our deepwater superintendent that has held just about every job there is on an offshore drilling rig. These are sincere, conscientious men with the sole aim of safely and effectively drilling and completing the wells which produce the product that allow all of us to drive and fly and to heat and light our homes.

As you are aware, on Monday, Secretary Salazar officially re-organized the previous Minerals Management Service. From my perspective, the government has the best understanding as to how it should be organized and the administrative changes sound reasonable. From an industry perspective, I am less concerned with the acronym associated with the agencies than I am getting a

timely response and working with people that are competent and professional. If you charge the Government with new functions and responsibilities, ensure that those people are funded and trained to meet those responsibilities in a timely manner. These organizational changes will be judged by the results and the answer to the question of whether people were placed in the best position to succeed.

One concern the Committee should look at is the use of ambiguous words that give so much discretion in making certain decisions which can lead to administrative and judicial wrangling over what they mean. Examples include “reasonable,” “acceptable,” “relevant,” “other exceptional circumstances,” and “would probably cause.” These words and their ambiguous meaning may result in more litigation. Instead, providing clarity should be a goal.

The reorganization of the Minerals Management Service is one that may have been necessary regardless of the Deepwater Horizon accident. However, efforts to significantly change the regulatory environment without a full understanding of facts could likely lead to unintended consequences that are difficult to undue. Therefore, I would encourage you all to be deliberative and understand the consequences of your actions. I would also point out that the Presidential Commission hasn’t even conducted their initial organizational meeting.

While the regulatory environment is getting plenty of attention, based on what I have been able to understand the largest cause of the Deepwater Horizon appears to be critical errors made during operations. For the thousands of workers within the Gulf, whatever changes you are looking at, we are counting on Congress to get this right, not just right now. Economically, we can’t afford decisions that are going to result in rigs leaving and the inability to produce energy here in the United States.

While I don’t want to try to minimize the disaster playing out in the Gulf, Congress will hopefully examine the safety record of the last forty years before making wholesale changes. I believe that with a few additional requirements such as independent verifications of blow out preventers and safety system functions, plus increasing the number of inspectors will significantly reduce the likelihood of a future disaster. Also, we have seen over the last 60 or so days development of a deepwater containment technology that did not really exist to my knowledge before this spill. Going forward think of the mitigation if one of those devices was already built and sitting at Port Fourchon ready to deploy in 2 days instead of 2 months. The size of the spill would be materially smaller with much less impact to our environment.

There is geology throughout the world that is easier to access the resource. There is water that is shallower to access. There are regulatory regimes that are not as stringent as the U.S. What the Gulf of Mexico has always offered was a legal and regulatory climate that offered certainty. Louisiana is my home and it is important that we have an environment that keeps jobs in Louisiana. It is also

important that the country maintain its own resources and the Gulf is a very important part of that resource.

While I am certain measured regulatory reforms can help make the offshore safer, I ask the committee to consider whether the proposals before us today will lead to more or less energy. Energy demand won't go down as a result of the spill. The only thing that will happen with drilling being shut down or reduced in the Gulf is an increased transfer of wealth out of our country into the oil exporting countries. Given the current tenuous state of our economy that does not make sense.

Most of us took transportation to work today that was either petroleum powered or petroleum manufactured. According to the Energy Information Agency, the United States will still need oil and natural gas for the foreseeable future. Companies like Stone Energy are ready to meet these challenges safely and responsibly but we need a regulatory environment that allows us to operate in the Outer Continental Shelf safely and economically.

Thank you and I look forward to answering your questions.