

Committee on Energy and Natural Resources
United States Senate
Hearing on S. 1273, the FAIR Act of 2013
July 23, 2013

Testimony of Cathie J. France
Deputy Director for Energy Policy, VA Department of Mines, Minerals & Energy

Chairman Wyden, Senator Murkowski, members of the Committee, good afternoon. My name is Cathie J. France. I am the Deputy Director of Energy Policy at the Virginia Department of Mines, Minerals, and Energy and a key advisor to Governor McDonnell on energy issues. Thank you for the opportunity to present at today's hearing. This is a very important issue for Virginia.

While I am speaking on behalf of the McDonnell Administration, my comments also generally reflect the majority view of the citizens of the Commonwealth, our state House of Delegates and state Senate, as well as Virginia's two U.S. Senators and a majority of our Representatives in the U.S. Congress.

As you know, Virginia's bipartisan political leadership has expressed time and again their support for development of offshore oil and gas off of the coast of Virginia, as well as the development of offshore wind.

Virginia's Support of OCS Development

Immediately after his election in November of 2009, Governor McDonnell expressed his desire to both Interior Secretary Salazar and President Obama that the Administration proceed with the previously scheduled OCS Lease Sale 220 off Virginia. In February 2010, the Virginia General Assembly passed legislation expressing its support for determining the extent of oil and natural gas resources 50 miles or more off the Atlantic shoreline, including appropriate federal funding for such an investigation, permitting the production and development of oil and natural gas resources 50 miles or more off the Atlantic, and inclusion of the Atlantic Planning Areas in the Minerals Management Service's draft environmental impact statement with respect to oil and natural gas exploration, production, and development 50 miles or more off the Atlantic shoreline.

Virginia was thrilled when, in March of 2010, the President announced Lease Sale 220 would proceed as part of the 2007-12 five-year plan. In April 2010, Secretary Salazar came to Richmond and met with Governor McDonnell to discuss the scheduled Virginia 220 Lease Sale. In announcing his plan to expand offshore oil and gas exploration, President Obama said, "this is not a decision that I've made lightly. It's one that Ken and I -- as well as Carol Browner, my energy advisor, and others in my administration -- looked at closely for more than a year. But the bottom line is this: Given our energy needs, in order to sustain economic growth and produce jobs, and keep our businesses competitive, we are going to need to harness traditional sources of fuel...". Virginia could not agree more with this statement and was extremely disappointed when the President announced the cancellation of Lease Sale 220 in May of that year.

The President went on to say, "There will be those who strongly disagree with this decision, including those who say we should not open any new areas to drilling. But what I want to emphasize is that this announcement is part of a broader strategy that will move us from an economy that runs on fossil fuels and foreign oil to one that relies more on homegrown fuels and

clean energy. And the only way this transition will succeed is if it strengthens our economy in the short term and the long run. To fail to recognize this reality would be a mistake.”

Unfortunately, as we all know, on April 20, 2010 the Deepwater Horizon/Macando blowout occurred and on May 7, 2010 Interior indefinitely postponed the comment period and canceled the public meetings to scope the EIS for Virginia Lease Sale 220.

On May 27, 2010, President Obama announced the cancellation of Virginia Lease Sale 220 and on December 1, 2010, Interior announced that further east coast development would be postponed until the 2017-2022 five-year plan.

Virginia objected strongly to the Bureau of Ocean Energy Management and Interior Secretary Salazar’s decision to leave development of Virginia’s offshore energy resources out of the proposed 2012-2017 OCS plan. The Governor sent a letter to Secretary Ken Salazar in November, 2011 and had a member of his Cabinet testify at the public hearing on the Proposed 2012-2017 Five year OCS Plan urging Interior to provide a means to execute the Virginia Lease Sale 220.

Virginia supported the Administration’s initial pause to evaluate what happened in the Gulf after Macondo. Governor McDonnell stated clearly that Virginia only wanted to proceed after a thorough investigation of the failure of the safety systems that led to the accident.

Virginia would have understood had that investigation caused a delay in proceeding with Virginia’s sale such that we would have been pushed into the next five year plan, 2012-2017. But there is absolutely no reason why a Virginia sale should have been pushed out to the following plan, 2017-2022. We are encouraged by the recent actions by the House to pass the Offshore Energy and Jobs Act which would expedite the opening of areas off the coast of Virginia to offshore natural gas and oil production and allow for equitable revenue sharing.

Virginia’s Support of Offshore Wind Development

Virginia has also been a leader in supporting the development of offshore wind. In 2006, as part of its comprehensive energy plan, the Virginia General Assembly passed legislation declaring it the policy of the Commonwealth to support federal efforts to examine the feasibility of offshore wind energy being utilized in an environmentally responsible fashion. In 2009, they adopted a "first of its kind" in the nation Permit By Rule to streamline permitting of small (< 100 MW) land-based and offshore renewable energy projects by addressing all issues of species and habitat, water quality and other state regulatory issues in a single permitting process agreed upon by all interested agencies and other stakeholders.

In 2010, the General Assembly approved Governor McDonnell’s proposed Green Job Creation Tax Credit, an annual \$500 tax credit for every green job created with a salary of \$50,000 or more, for five years and up to 350 jobs. In 2011, they approved Governor McDonnell’s creation

of a new Clean Energy Manufacturing Incentive Grant program to focus existing resources for energy development incentives on targeted nuclear, wind, solar and biomass alternative energy projects. The legislation expanded Virginia's economic incentive programs for those companies willing to locate and innovate in the Commonwealth and will help make Virginia a hub for clean and renewable energy production.

Further, the Governor supported the work of former Interior Secretary Ken Salazar's offshore wind consortium to reform the permitting process and develop leasing and permitting timelines that would support financing and actual project development which led to the Secretary's "Smart from the Start" program. The Governor also created the Virginia Offshore Wind Development Authority (VOWDA) which oversees the data gathering, research and planning that must be done to support offshore wind development off of Virginia's coast and track issues as they arise, and makes recommendations for promoting Virginia offshore wind development. VOWDA, in partnership with the Virginia Coastal Energy Research Consortium conducted several studies to quantify Virginia's offshore resource, and the transmission resources needed and available to support development of that offshore resource. The Commonwealth also partnered with the Bureau of Ocean Energy Management to conduct a regional ocean geological survey, which will provide data about the ocean floor that will be made available to developers. We have also submitted applications for two research leases - one in the wind area designated by the Department of the Interior in federal waters, and one adjacent to the Wind Energy Area designated for commercial development to facilitate turbine testing and future gathering of metocean data. Finally, the Commonwealth engaged with BOEM on their interagency task force to help deconflict military and commercial maritime interests in defining the Wind Energy Area and designing the sale notice for lease of that area. We are excited for that auction to take place on September 4, 2013.

I provide all of this information to demonstrate Virginia's continuous commitment to an all of the above approach to energy production, reduction in our dependence on foreign oil, and our dedication to the safe and responsible production of our offshore resources. I would like to turn now to the reasons we believe that this cannot be done without a fair and equitable revenue sharing of offshore revenues for coastal states.

Support for Revenue Sharing

Virginia has one of the most robust ports in the United States with extensive heavy marine construction capabilities, major maritime support infrastructure with unlimited air draft transits between port and sea,. We are up to the challenge of providing the needed infrastructure for oil and gas exploration and development and the production of offshore wind. There will, however, be upgrades needed to our port infrastructure and to the transportation outlets leading to and from the Port once production of our offshore resources begins. We strongly believe that these

infrastructure upgrades should be supported by money generated by revenue collected from the companies proposing to develop our offshore resources. In fact, in 2010, the General Assembly passed legislation that would dedicate 70% of any revenues and royalties paid to the Commonwealth as a result of offshore natural gas and oil drilling and exploration to the Transportation Trust Fund and 10% to the localities of the Commonwealth for improvements to infrastructure and transportation. The cost allocation provided for in the FAIR Act would provide the funds needed to accomplish these important infrastructure upgrades.

Further, Virginia would be required to support additional coastal and wetland protection and mitigation programs to ensure minimum impacts to the environment and maintain the integrity of our coastline during the development of our offshore resources. Additionally, we would partner with the federal government to implement safety programs, coordinate development operations with our military operations and commercial maritime interests and provide funding to help prevent or potentially respond to future incidents caused by weather events that may be beyond our control. It is very important that the federal Administration and the Commonwealth continue to work as partners in these important areas and it would be inequitable for the federal government side of the partnership to receive the only financial support for its efforts. This bill recognizes that and we applaud the Senator for encouraging the states and the Administration to work together and the provision of resources for both to be able to hold up their end of the deal.

Finally, Virginia has made a commitment to use part of any revenue shared from offshore production for research and development related to alternative and renewable energy. The legislation passed by the General Assembly dedicates twenty percent of such revenues and royalties to the Virginia Coastal Energy Research Consortium which is a consortium of universities and energy companies in the Commonwealth dedicated to researching alternative and renewable energy innovations such as wave, tidal, wind, biodiesel production from algae, etc. This bill recognizes the importance of continuing to invest in research and development of innovative alternative and renewable sources of energy by dedicating an additional ten percent of the revenue generated by offshore production and we are committed to continuing that partnership as well.

Thank you for your time and consideration this afternoon. I urge you to vote in favor of this bill and to enhance our energy security, our energy reliability, future innovation for alternative energy sources and the creation of many American jobs. Offshore energy production, along with revenue sharing to all coastal states, is necessary to create the partnership needed between the states and the federal government to create economic growth and improve our national security.