<u>Statement of W. Jackson Coleman</u>

before the

United States Senate Committee on

Energy and Natural Resources

Concerning

S. 516, S. 843, S. 916, and S. 917

May 17, 2011

I. Introduction

Chairman Bingaman, Ranking Member Murkowski and Members of the Committee, my name is Jack Coleman and I am Managing Partner and General Counsel of EnergyNorthAmerica, LLC, a energy consulting firm with offices in Washington, DC, and Houston, TX. I appreciate the Committee's invitation to present my views at this hearing on these four bills primarily dealing with offshore oil and gas. Early in 2009 I retired after a career of almost 27 years in the federal government – the last six of which were spent working in the House of Representatives. From February 2007 until March 2009, I was the Republican General Counsel of the House Committee on Natural Resources, and prior to that I served from May 2003 until late 2006 as the Energy and Minerals Counsel for the House Committee on Resources. While working in the House, I drafted many bills, including the Deep Ocean Energy Resources Act passed by the House in 2006, and significant parts of the Energy Policy Act of 2005.

My work in the House followed my previous fourteen years as a senior attorney at the Department of the Interior. From September 1992 until May 2003, I served as a senior attorney in the Office of the Solicitor with the Minerals Management Service (MMS) as my primary client, and prior to that, from January 1989 until September 1992, I served as Senior Attorney for Environmental Protection and legal advisor to the Department's Office of Environmental Affairs. My first work on offshore oil and gas issues began during the period from March 1982 until August 1985 when I was Special Assistant to the Associate Administrator of the National Oceanic and Atmospheric Administration.

Prior to my service at NOAA, I served on active military duty as an Army Judge Advocate General's Corps Captain from June 1978 until March 1982. My post-secondary education was completely at the University of Mississippi, except for graduate work in legislative affairs at the George Washington University. I received a Juris Doctor degree from the University of Mississippi School of Law in 1978 and a Bachelor of Business Administration in Accountancy degree from the University of Mississippi in 1975. I am a member of the Mississippi Bar.

The focus of this hearing is on a number of bills related to offshore oil and gas. While all of these bills have provisions which I either recommend or find to be harmless, I will focus my testimony primarily on the aspects of these bills that cause concern, including some provisions that I believe could breach existing federal offshore oil and gas lease contracts and create substantial claims to be paid by US taxpayers. First, however, I will present a few facts about offshore oil and gas and our national debt and second, I will discuss the governing law related to federal oil and gas lease contracts.

II. Offshore Oil and Gas and our National Debt

The approximate daily oil consumption in the United States is 19 million barrels, with about 58%, or 11 million barrels per day, imported. Our largest source of foreign oil is Canada, but the majority of our imported oil comes from other nations. Our yearly amount of imported oil totals more than 4.2 billion barrels. As of the time of the last Department of the Interior Offshore Oil and Gas National Assessment of offshore oil and gas resources in 2006, just over 14 billion barrels of oil had been produced from the federal offshore and more than 15 billion barrels of already discovered oil reserves were available to be produced. Further, the National Assessment estimated that exploration and production activities in the federal offshore would, in the mean case, eventually produce an additional 86 billion barrels of currently undiscovered oil – assuming the offshore lands containing this oil are reasonably made available for leasing and production. These two amounts combine to an expected future production from the federal offshore of 101 billion barrels – sufficient to eliminate all oil imports by the United States, at current levels, for almost 25 years.

Similarly, the National Assessment estimated that just over 153 trillion cubic feet of natural gas have been produced from the federal offshore and that more than 60 trillion cubic feet of already discovered natural gas were available to be produced. Further, the National Assessment estimated that exploration and production activities in the federal offshore would, in the mean case, eventually produce an additional 420 trillion cubic feet of currently undiscovered natural gas – assuming the offshore lands containing the natural gas are reasonably made available for leasing and production. These two amounts combine to an expected future production from the federal offshore of 480 trillion cubic feet of conventional natural gas – sufficient to totally provide for the United States' current annual consumption of natural gas for more than 20 years.

One might ask, "What is the value of these reserves and resources to the American people?" This can be measured in many ways. The direct value of receipts to the Treasury from producing these reserves and resources, at $75/barrel of oil and $5 per thousand cubic feet of natural gas, is approximately $1.8 trillion dollars in royalties (assuming an 18% royalty) and $2.7 trillion in corporate income tax receipts from producers, for a total of $4.5 trillion. This sum does not include any up-front sums paid to obtain the leases, nor the tax revenues derived from the jobs that will be created to directly produce these resources, nor the indirect and induced economic impacts of producing these American energy resources owned by the American people. Even without those additional benefits and others, the direct corporate taxes and oil and gas royalties will pay off one-third of our current national debt without raising taxes on the American people. However, these vast offshore resources will never pay off any of the national debt if they are not made available for leasing, drilling and production.

Additionally, it is important to note that these offshore resource numbers do not include natural gas hydrates which international public and private research has now proven will be able to be commercially produced in the near future. More than 99% of America's 320,000 trillion cubic feet of natural gas hydrates are located in the deepwater federal offshore. If even only 1% of this resource is eventually producible, it would add 3,200 trillion cubic feet of natural gas. Production of this 1%, or 3,200 trillion cubic feet, of our natural gas hydrate resources would generate approximately $3 trillion in royalties and about $4.5 trillion in corporate income tax on this production from the lessees, for a total of approximately $7.5 trillion. When combined with the prior $4.5 trillion, a total of $12 trillion will result from production of offshore oil and natural gas, including natural gas hydrates. This sum is sufficient to pay off approximately 90% of the current national debt without raising taxes. Further, this amount could easily be 50 to 100 percent higher because it is based on decades old seismic surveys in moratoria areas which are expected to significantly underestimate recoverable resources. As the Department of the Interior stated in its February 2006 OCS Inventory Report to Congress mandated by Section 357 of the Energy Policy Act of 2005, "**True knowledge of the extent of oil and natural gas resources can only come through the actual drilling of wells**. Estimating undiscovered resources, no matter how sophisticated the models and statistical techniques employed, is an inherently uncertain exercise that is based on hypotheses and assumptions, with **the results limited by the quality of the underlying geologic data**." (**emphasis** added). The Department also stated, "**Frontier areas such as parts of the Eastern Gulf of Mexico and other offshore areas under congressional or executive withdrawal offer the potential of larger field-size discoveries** . . . the risk-based **estimates in frontier areas ordinarily will have been seen as far too conservative** if later exploration demonstrates that the area is hydrocarbon-prone."

Some have said that the oil and gas industry is trying to produce oil in water that is just too deep. First, the offshore drilling industry is capable of drilling in deeper than 12,000 feet of water, and more than 80% of the oil production in the Gulf is from leases in more than 1,000 feet of water. Second, oil must be produced where it is found. According to the 2006 National

Assessment, of the 45 billion barrels of oil left to be discovered in the Gulf of Mexico, all except 3.5 billion barrels, or 92% is located in water deeper than 650 feet. Last year's 500 foot drilling moratoria in the Gulf of Mexico temporarily made those 41.5 billion barrels unavailable for exploration and future production. Finally, we can all agree that the nation needs to continue to push the development of even better and safer technology and implement procedures that will help ensure that an accident of this type never happens again, and in the outside chance that it does that we have in place more aggressive and effective oil spill response mechanisms that shut down the well and clean it up much quicker.

This $12 trillion plus is only the U.S. federal taxpayers' share from the production of America's offshore oil and natural gas resources. Much more wealth will redound to our citizens through high paying jobs, economic development, state and local taxes, and the economic benefit of the turnover of trillions of dollars that would have been sent to foreign countries. Our onshore resources are also abundant. In fact, the Congressional Research Service recently issued a report showing that instead of being an energy resource deprived nation as many would have us believe, the United States has a larger endowment of oil, natural gas, and coal than any other country in the world. As large as the reserves and resources discussed in the CRS report are, they still do not include the 83 to 128 billion barrels of oil stranded in older American oil fields that the National Energy Technology Laboratory Report (DOE/NETL-2010/1417) documented in 2010 could be produced using "best practices" and "next generation" technology enhanced oil recovery by sequestering CO2. Nor do they include the 800 billion barrels of oil that the Rand Corporation has estimated can be recoverable from western oil shale.

Yet, we continue to hear the old dogma that this nation cannot drill its way to energy self-sufficiency. The facts show that we could do just that, given adequate time to develop the resources, if we had the national will to do it, but I don't know of anyone proposing that this nation rely only on our hydrocarbon resources. But, as the Energy Information Administration recently reiterated, the United States will rely on oil, natural gas, and coal for the vast majority of its energy resources for as far into the distance as EIA projects.

III. *Mobil v. U.S.* and its Progeny

Since 1992, my career has predominantly focused on offshore oil and gas law and it has frequently included significant responsibilities related to breach of contract liability issues. Beginning in 1992, I was the lead Department of the Interior attorney for *Conoco v. U.S.*, 35 Fed. Cl. 306, later *Marathon v. U.S.*, 177 F. 3d 1331, and finally *Mobil Exploration and Producing Southeast, Inc., v. U.S.*, 530 U.S. 604, 120 S.Ct. 2423 (2000). *Mobil* is a landmark case establishing the governing law applicable to federal offshore oil and gas lease contracts. The *Mobil* opinion, delivered by Mr. Justice Breyer, resulted from a breach of contract action by seventeen oil and gas lessees involving claims exceeding $700 million resulting from Acts of Congress that restricted the rights of lessees to explore for and develop oil and gas resources on existing leases off Alaska, Florida, and North Carolina. Discovery exceeded several hundred thousand pages. I personally conducted eleven depositions totaling more than 2,500 pages in length. All except two of the seventeen plaintiffs settled with the government prior to the case reaching the Supreme Court.

At issue in that Court was the passage of the Outer Banks Protection Act (OBPA) as a part of Oil Pollution Act of 1990 (OPA 90) and whether the leases incorporated the OBPA into their terms and were "subject to" the OBPA. The OBPA established an Environmental Sciences Review Panel (ESRP) and prohibited the Secretary of the Interior from issuing any permit to drill on existing leases offshore North Carolina for at least thirteen months, but for a longer period if the ESRP had not completed its work of determining whether the Secretary possessed sufficient environmental information with which to make decisions on drilling permit requests for the affected leases. Among other things, the Department of the Interior had taken the position that the provisions of the leases incorporated the later-enacted OBPA into them and made them "subject to" it. This position was based on the terms of the leases which provided in relevant part that the leases are "subject to all other applicable laws and regulations." The Court addressed this issue by stating that "the lease contracts say that they are subject to then-existing regulations and to certain future regulations . . . This explicit reference to future regulations makes it clear that the catchall provision that references "all other applicable . . . regulations," . . . must include only statutes and regulations already existing at the time of the contract, see 35 Fed. Cl., at 322-323, a conclusion not questioned here by the Government. Hence, these provisions mean that the contracts are not subject to future regulations under other statutes, such as new statutes like OBPA. Without some such contractual provision limiting the Government's power to impose new and different requirements, the companies would have spent $158 million to buy next to nothing." The Court found that when Congress enacted the OBPA and the Department of the Interior announced that it would apply its provisions to the leases offshore North Carolina, the government had repudiated the contracts and committed a material breach. In the Court's words,

> "As applied to this case, these principles amount to the following: If the Government said it would break, or did break, an important contractual promise, thereby "substantially impair[ing] the value of the contract[s]" to the companies, *ibid.*, then (unless the companies waived their rights to restitution) the Government must give the companies their money back. And it must do so whether the contracts would, or would not, ultimately have proved financially beneficial to the companies."

The Court noted that the leases stated that they would be subject to "all regulations issued pursuant to" the Outer Continental Shelf Lands Act (OCSLA) "in the future which provide for the prevention of waste and the conservation" of outer Continental Shelf resources. The Court found as a general matter of law that federal mineral leases are governed by the commercial law of contracts. The Court further noted that "the Court of Claims concluded . . . that timely and fair consideration of a submitted Exploration Plan was a 'necessary reciprocal obligation,' indeed, that any 'contrary interpretation would render the bargain illusory.' We agree." Of note, but not decisive, is that the OCSLA required in 43 USC 1340(c)(1) that the government act within 30 calendar days to approve exploration requests. The government argued that the OBPA-required delays of at least thirteen months were not substantial and therefore did amount to a material breach of the leases. The Court rejected that argument by noting, "if the companies did not at least buy a promise that the Government would not deviate significantly from those procedures and standards, then what did they buy? . . . The Government's modification of the contract-incorporated processes was not technical or insubstantial. It did not announce an (OBPA-required) approval delay of a few days or weeks, but of 13 months minimum, and likely much longer. And lengthy delays matter, particularly where several successive agency approvals are at stake." Finally, the Court wrote, "Contract law expresses no view about the wisdom of OBPA. We have examined only that statute's consistency with the promises that the earlier contracts contained. We find that the oil companies gave the United States $158 million in return for a contractual promise to follow the terms of pre-existing statutes and regulations. The new statute prevented the Government from keeping that promise. The breach "substantially impair[ed] the value of the contract[s]." And therefore the Government must give the companies their money back."

I later became the lead Interior attorney for another major offshore oil and gas breach of contract action, *Amber Resources Co. et al v. United States*, 538 F. 3d 1538 (Fed. Cir. 2008). This case was factually very similar to *Mobil* in that it involved a statute enacted after the issuance of the leases, the Coastal Zone Management Act Amendments Act of 1990, which was determined in other litigation for which I was the lead Interior attorney, *California et al. v. Norton*, 150 F. Supp. 2d 1046 (N.D. Cal. 2001), to apply to the operation of the leases. The lessees filed *Amber* citing *Mobil's* holding that the application of a later-enacted statute to the leases in such a way that materially changed the process through which the lessee must pass in order to explore and develop the oil and gas resources on the leased tracts amounted to a material breach of the leases entitling the lessees to compensation. The Court of Federal Claims granted judgment for the lessees and the Court of Appeals for the Federal Circuit affirmed the judgment but decreased the measure of compensation to restitution of the $1.1 billion paid to the federal government on the leases.

IV. Application of the *Mobil* and *Amber* Decisions to S. 917

I will address the following in turn – (1) legislative provisions in S. 917 to change the OCSLA statutory exploration plan approval deadline for existing leases (Section 6(e)); (2) provisions to substantially change exploration plan disapproval standards that apply to existing leases (Section 6(e)); (3) provisions to eliminate existing economic feasibility provisions related to the use of best available and safest technology and apply these to existing leases (Section 6(h)); (4) provisions to impose new lease inspections fees on existing leases (Section 6(i)); and, (5) provisions to impose extraordinary increases in civil and criminal penalties on existing leases

(Section 6(j)). Unfortunately, all of these provisions are included in S. 917, and each is likely to be a material breach of all existing 6,336 federal OCS leases (number as of 10/01/2010 per BOEMRE website).

S. 917 would retroactively apply all of these provisions to existing leases. Such a substantial change to the conditions under which companies have acquired their leases would likely be a material breach of contract, based on *Mobil*. As stated earlier, the Supreme Court held that companies that acquire leases do so in return for a contractual promise that the Government will follow the terms of pre-existing statutes and regulations. To apply substantial changes to those pre-existing statutes and regulations, except within narrow limits, would likely be a repudiation of the contracts and entitle leaseholders to compensation for ALL existing federal offshore leases, including those already in production. In the Gulf of Mexico alone, there are currently over 6000 oil and gas leases covering 35 million acres that were bought for an average of about $300 per acre in recent years. By committing a breach of contract on its Gulf of Mexico leases, the federal government would expose the American public to far more than $10 billion in claims from current leaseholders, not counting likely claims for lost profits. In excess of an additional $3 billion would be at risk for leases bought offshore Alaska.

First – Provisions to change the OCSLA statutory exploration plan approval deadline for existing leases (Section 6(e)). The 30 calendar day exploration plan approval requirement (OCSLA section 11(c)(1)) has been the law since 1978. Meeting this statutory requirement has not been a significant problem until recent complaints. In practice, this 30 calendar day requirement is actually closer to 50 calendar days. 30 CFR 250.231 related to exploration plans says that once a "proposed" EP (exploration plan) is received, the Regional Supervisor has 15 "working" days (3 weeks) to determine if the proposed EP is "deemed" submitted. If he finds deficiencies, then the EP is not "deemed" submitted until the deficiencies are corrected. The purpose of this is to provide the lessee with the information of all deficiencies needed to allow the EP to be approved or denied. In my experience, plan and permit approval work can be done in one of two ways – either smart or hard. The smart way is to learn from prior experience with operators and have the discretion to apply the greatest resources to the ones which have had greater safety and compliance problems in the past. The hard way is to turn staff into glorified paper shufflers not empowered to think, but merely to process paper and take a long time to do that. S. 917 imposes a new requirement of a "safety case" on all operators. Together with the stronger safety and environmental regulations already in place, I do not see why processing of exploration plans cannot be accomplished within existing statutory requirement. S. 917 changes that 30 day approval period to up to an amazing 270 days for new leases and allows the Secretary an unlimited amount of time for existing leases if the Secretary can convince the lessee to allow him to take longer than 30 days. In my opinion this change of law will constitute a material breach of the leases. The contract provision is 30 calendar days, which as implemented by regulations is really approximately 50 calendar days. The proposed provision is a material unilateral change by one party (the government) to a contract and destroys the bargained for contractual negotiating positions of the parties to the contract. Unfortunately, the Secretary is in a position of great power over a lessee and can use, if desired, coercion to achieve the Secretary's objectives against an unequal bargaining entity (a lessee). Even if the potential breach of contract issues did not exist, this provision invites politics and coercion into the nation's offshore energy production program and should be avoided from a policy point of view. I recommend that current law remain unchanged.

Second -- Provisions to substantially change exploration plan disapproval standards that apply to existing leases (Section 6(e)). This provision, a new section 11(e) of the OCSLA, would establish new standards for disapproval of exploration plans. Not only would these new standards breach existing lease contracts, they would conflict with existing law which is not amended by S. 917, OCSLA section 11(c)(1)(A) and (B). These standards are not identical and the duplicate set of standards will be highly confusing to lessees and DOI employees alike, not to mention creating a myriad of legal issues including breach of contract and APA issues. I recommend that current law remain unchanged.

Third-- Provisions to eliminate existing economic feasibility provisions related to the use of best available and safest technology and apply these to existing leases (Section 6(h)). Current law, OCSLA Section 21, requires lessees to use "best available and safest economically feasible technologies." S. 917, in section 6(h) eliminates all consideration of economic feasibility when determining regulatory requirements for use of technology. This change would allow the government to require uneconomic technologies on all offshore oil and gas leases. The obvious result could be a large reduction in oil and natural gas production, a significant reduction in the number of energy jobs, lower government revenues, and more imported oil. Current law requires best available and safest technology unless the Secretary determines that is not economically feasible. This standard is fair and promotes the extension of new technologies into the offshore as they become economic. Existing lease contracts incorporate current law into their provisions. Enactment of the proposed revision is likely to result in a material breach of existing OCS lease contracts. I recommend that current law remain unchanged.

Fourth-- Provisions to impose new lease inspections fees on existing leases (Section 6(i)). Current law, OCSLA Section 18(b)(4), anticipates that appropriated funds will be used to "supervise operations conducted pursuant to each lease in the manner necessary to assure due diligence in the exploration and development of the lease area and compliance with the requirements of applicable law and regulations, and with the terms of the lease." The Supreme Court has held that lessees are entitled to the use of existing law as it was at time of lease issuance, with few exceptions. In fact, the OCSLA as it exists at time of lease issuance, is incorporated into the terms of each lease. Enactment of a lease inspection fee would not fall within any of the allowed exceptions. Therefore, enactment of this lease inspection fee is likely to constitute a material breach of all existing OCS leases. I recommend that current law remain unchanged.

Fifth-- Provisions to impose extraordinary increases in civil and criminal penalties on existing leases (Section 6(j)). Current law, OCSLA section 24(b) provides for civil penalties for failure to comply with the provisions of the OCSLA, the lease, permits, and regulations. However, under current law, a lessee is entitled to notice and an opportunity to make corrective action prior to a penalty being assessed. The proposed language in section 6(j) eliminates the opportunity for notice and corrective action. The new language makes the lessee liable for any failure to comply. In addition, the civil penalty for each failure to comply is increased from $20,000 per day under current law to $75,000 per day. Once again, this is a material unilateral change of existing contracts and is likely to be a material breach of all existing contracts. Even if it is made applicable to only future lease contracts, I recommend that fundamental fairness requires the retention of current law which allows for notice and the opportunity for corrective action prior to imposition of a civil penalty.

Current law, OCSLA section 24(c) provides for criminal penalties for "any person who knowingly and willfully" commits any number of acts, including, among other things, violating a provision of the lease, regulations, etc., designed to protect health, safety, or the environment, or conserve natural resources; making false statements or reports; tampering with monitoring equipment, etc. Current law provides for, upon conviction, punishment by a fine of not more than $100,000, or by imprisonment for not more than ten years, or both. S. 917 proposes to raise the fine to $10,000,000. Further, S. 917 proposes to make corporate officers and agents guilty of a crime if they "with reckless disregard" authorized, ordered or carried out the proscribed activity. Current law requires the officers and agents to "knowingly and willfully" take those actions. Both of these criminal provision changes are likely to constitute material breaches of all existing leases.

V. Views on other provisions of S. 917

Section 4. Amendments to Section 3 of the OCSLA are unnecessary. Current law already provides for environmental safeguards and for development to be "consistent with other national needs." I am also concerned that the new standard laid out in (6) that exploration and production on the OCS should "be allowed only when those activities can be accomplished in a manner that provides 'reasonable assurance' of adequate protection against harm . . . " I don't know what this means, but it is far too prescriptive. This will be used against offshore oil and gas production in litigation.

Section 6 (c). A provision is included (g) for periodic fiscal reviews and reports, including a review of royalty rates (g)(1) and comparative fiscal systems (g)(2). The royalty rate reviews will be done independently of the fiscal system reviews. I do not see that an adequate royalty rate review to determine if the taxpayers are receiving a fair return on royalties can be done until after the comparative fiscal system reviews so that fiscal information may be used in the royalty reviews.

Section 6 (e) provides for deepwater operations plans in addition to exploration plans. Further, this section requires new statutory engineering reviews. All of these have new statutory requirements for approval, but no deadlines for approval. It is very unclear how these will work together. They appear to me to be new statutory requirements which, in the final analysis, mean that a lessee really has very little when it receives approval of an exploration plan. This bill adds significant, unnecessary statutory hurdles to a lessee obtaining approval to drill oil and natural gas well. These, too, are likely to be material breach of existing leases.

Section 6 (e) contains wording that is problematic in many provisions, including a requirement that exploration plans include provisions for resources that, in the event of a blowout, will be used to “avoid harm to the environment . . . hydrocarbons.” I believe that this would be impossible and I recommend that the word “minimize” be substituted for the word “avoid”.

Section 6 (e) in (B)(ii) imposes requirements which are redundant, but not identical, to existing statutory requirements in OCSLA section 11(c)(3)(A)(ii)(IV). This will cause significant confusion, not to mention legal issues. Why are they necessary to be imposed twice?

One provision related to Section 18, leasing program of the OCS, provide significant concern. Instead of current law which requires the Secretary to “consider” various matters when determining the leasing program, the problematic provision requires that the Secretary “give equal consideration to” these matters. Once again, this presents the Secretary with an impossible duty and provides new grounds for challenge of an oil and gas leasing program.

VI. Views on S. 516, S. 843, and S. 916

S. 516: This is an excellent bill which should have been unnecessary. OCS regulations provide that the DOI will direct a suspension of a lease when a lessee is told not to use its lease and that the government will not consider permit requests. S. 516 makes things right. I believe that the one year extension for all Gulf of Mexico leases is appropriate. However, I recommend that the bill be amended to provide for extension of all Alaska OCS leases by two years. Those leases were affected by the moratorium last year, but they have also been adversely affected for a much longer period of time because of failure of government agencies, including the EPA and NOAA, to timely consider permit requests in the Alaska OCS Region.

S. 843: This is also an excellent bill, with a few caveats. However, the Gulf of Mexico OCS Region would also benefit from a regional permit processing coordination office and I recommend that the bill be amended to provide for one. In addition, I recommend that the Coast Guard be added to the list of agencies that will participate in the coordination offices. While I understand the apparent need for Section 4 on Judicial Review, I believe that it needs to be reworded. I am concerned that the word "claim" could provide that monetary claims stemming from Alaska that under the Tucker Act would be heard in the Court of Federal Claims will now be heard by the DC Circuit.

S. 916: This is also an excellent bill, but also with a few caveats. I am uncertain what is meant in Section 201 by the term "otherwise facilitating seismic studies of resources." Other than permitting seismic surveys or contracting for them directly, I am unaware of any authority of the Secretary to "facilitate seismic studies of resources." I do believe that this is an area of policy where the Secretary should be granted more authority. In addition, I am curious as to the reason that the Pacific Region, with vast oil and natural gas resources and reserves and the potential of much more to find, would not be included in a "comprehensive inventory" of OCS oil and natural gas resources. Section 203 repeals "mandatory outer Continental Shelf deep water and deep gas royalty relief for future leases." As someone who drafted these provisions which were enacted in the Energy Policy Act of 2005, these provisions are not mandatory because the statute specifically allows the Secretary to condition any royalty relief based on the price of the commodity. Hence, royalty relief is discretionary with the Secretary because the Secretary can set a price so high that royalty relief will not take place. I believed then, and I still believe now, that these provisions are valuable tools for the Secretary to make use of to stimulate production in the event of low resource prices.

VII. Closing

It is clear that our nation benefits from developing oil and gas resources here at home. Domestic energy development reduces our reliance on imported oil, directly supports over 9 million jobs, creates billions in new wealth every year, and generates over $13 billion for the federal Treasury on an annual basis. And we can produce so much more oil and gas in the United States than we do now, creating millions of more jobs, billions of more wealth, and yes, billions more in receipts to the U.S. Treasury.

I urge the Committee to go beyond the bills being considered today and act broadly and boldly to unlock the bountiful natural hydrocarbon and renewable energy resources that this nation has been blessed with. Permit reform, opening the entire outer Continental Shelf to leasing, policy changes to make greater use of CO_2 enhanced oil recovery, commercial lease sales for oil shale and tar sands, use of commonsense NEPA categorical exclusions, eliminating frivolous litigation, and other actions must be taken to achieve the nation's energy independence.

Thank you for the opportunity to testify and I would be pleased to answer any questions.