**STATEMENT OF**
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**U.S. DEPARTMENT OF THE INTERIOR**
**BEFORE THE**
**SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES**
**JANUARY 25, 2007**

Mr. Chairman, thank you for the opportunity to appear here today to discuss the Federal Outer Continental Shelf (OCS) and the role these Federal lands play in providing a secure source of domestic production of oil and gas.

The Department and its agencies, including the Minerals Management Service (MMS), serve the public through stewardship of our Nation's natural resources. The Department also plays an important role in facilitating domestic energy development. One third of all energy resources produced in the United States are managed by the Department of the Interior.

The MMS has two significant missions: managing access to offshore Federal energy and mineral resources and managing revenues generated by Federal and Indian mineral leases, on and offshore.

Managing access has resulted in OCS production of almost 11 billion barrels of oil and more than 116 trillion cubic feet of natural gas since 1982. Since 1982 OCS leasing has increased by 185 percent, and since 1994 OCS oil production has increased by 34 percent.

## Nation's Energy Outlook

The United States continues to face an energy challenge with high prices and increasing dependence on foreign supplies. Our security, economy, and our quality of life are dependent on energy. As this Committee knows well, there is no single solution. Achieving energy security will require diligence on both the supply and demand sides of the energy equation.

Oil will continue to be vital to the American economy. According to the Energy Information Administration (EIA), over the next 20 years Americans' demand for energy is expected to grow 25 percent. [See figure A: EIA projection of U.S. energy consumption] Even with more renewable energy production expected, oil and natural gas are projected to account for a majority of energy use through 2030. This projection incorporates continued gains in energy efficiency and movement away from energy-intensive manufacturing to less energy intensive service industries. Offshore oil and gas production will continue to be a vital part of our Nation's domestic energy resource portfolio. [See Figure B: EIA projection of U.S. energy resource production]

Continued and growing reliance on oil and natural gas coupled with the need to reduce our dependence on foreign energy supplies causes us to look increasingly at the potential oil, natural gas and other energy resources from Federal waters on the Outer Continental Shelf (OCS) to enhance environmentally safe domestic energy production.

Today, MMS administers more than 8,400 leases and oversees over 4,000 facilities on the OCS. According to MMS's calculations, within the next 5 years, offshore production will likely account for more than 40 percent of domestic oil and 25 percent of U.S. natural gas production, owing primarily to deep water discoveries in the Gulf of Mexico.

**OCS Role in Nation's Energy Portfolio**

Much of the future United States oil and gas demand will have to be met by OCS production, especially from new areas in the Gulf of Mexico and Alaska.

The Gulf of Mexico continues to represent a major domestic energy source for the United States. There is intense interest in oil and gas potential in the deep and ultra-deep water areas. Exploratory drilling in the deep water increased in 2005 despite the disruptions caused by hurricanes; and 12 new deep water discoveries were announced in 2006. Recent discoveries in the ultra-deep waters of the Gulf of Mexico represent a significant increase in oil and gas reserves for decades to come. The large volume of active deep water leases, the steady drilling program, and the deep water infrastructure indicate that the deep water Gulf of Mexico will continue to be an integral part of the Nation's energy supply.

The EIA provided MMS with Federal OCS data pulled from its soon to be published 2007 Annual Energy Outlook[1]. The Federal OCS data shows a trend of increasing oil production from the OCS to about 750 million barrels per year by 2010. Natural gas production should begin increasing in 2007, again reaching 4 trillion cubic feet by 2011 and sustaining that level through at least 2022. Significant additional oil and natural gas production is expected when new projects, like Atlantis, Thunder Horse, and Independence Hub, come on line in 2007 and 2008. However, new deep water natural gas production may not keep pace with the expected declines in production from the shallow waters of the Gulf of Mexico.

To encourage energy development from Federal offshore lands, MMS provides an orderly and predictable schedule of oil and gas lease offerings through competitive bid. Production from leases issued as a result of these sales will contribute substantially to future domestic oil and gas production and will provide bonuses, rentals and royalties to the U.S. Treasury and adjacent coastal states. To encourage increased drilling and production from the OCS, sales in the Gulf of Mexico have included royalty incentives authorized by Congress for the drilling of deep depth wells in shallow waters and for

[1] Energy Information Administration, Annual Energy Outlook 2007 Data (Special National Energy Modeling System run AEO2007.D112106A for MMS).

producing from deep water leases. Incentives have also been provided for newly issued leases offshore Alaska to encourage industry interest in that area.

## 2006 Resource Assessment

Last year, as part of the OCS inventory requirements of the Energy Policy Act of 2005, MMS completed an assessment of the potential quantities of undiscovered technically recoverable oil and gas resources that may be present on the OCS[2]. According to this assessment, the OCS is thought to contain (at the mean level) 86 billion barrels of oil and 420 trillion cubic feet of natural gas. For comparison, the most recent resource assessment estimates from the United States Geological Survey National Oil and Gas Assessment indicate that the total mean, undiscovered technically recoverable resources for onshore and State owned waters offshore are approximately 46 billion barrels of oil and 627 trillion cubic feet of natural gas. Thus, the OCS represents about 65 percent of oil and 40 percent of natural gas of the Nation's remaining undiscovered technically recoverable oil and natural gas resources. [See Figure C: Resource Assessment Map]

Approximately 20 percent of those undiscovered technically recoverable OCS resources have been unavailable for leasing due to longstanding congressional moratoria and/or Presidential withdrawal. When the 2006 resource assessment was completed, areas under congressional moratoria or Presidential withdrawal included the North Aleutian Basin off Alaska, the Pacific, the Eastern Gulf of Mexico, and the Atlantic. As discussed further in my statement, modifications to the status of some of these areas have recently been made.

There is great uncertainty regarding the resource potential in areas where leasing has been prohibited and where the last geophysical surveys and drilling exploration occurred more than 25 years ago. Using the information available to us, we estimate that nearly 17.8 billion barrels of oil and 76.5 trillion cubic feet of technically recoverable gas remain unavailable for leasing consideration.

## Access to Resources

Of the 1.76 billion acres of Federal offshore lands on the OCS, about 600 million acres are not available for oil and gas leasing. The potential resource in the areas under remaining moratoria and withdrawal are estimated to be approximately 18 billion barrels and 76 trillion cubic feet of gas.

There has been a 20-year congressional moratorium on new leasing along the Atlantic and Pacific coasts and in the Eastern Gulf of Mexico. In 1990, Congress placed Alaska's North Aleutian Basin under a leasing moratorium. In 1998, these areas were placed under a Presidential Withdrawal which continues through 2012.

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[2] Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources. http://www.mms.gov/revaldiv/PDFs/FinalInvRptToCongress050106.pdf

In 2004, at the request of the Alaska delegation, Congress dropped the North Aleutian Basin from the annual moratoria language. The Gulf of Mexico Energy Security Act (GOMESA) [3] was signed into law in December 2006, establishing a new moratorium on leasing activities until June 30, 2022 in the new Eastern Gulf Planning Area outside of Sale 181, and a portion of the Central Gulf Planning Area that, in general, is within 100 miles of the coastline of Florida. There are two small areas in the new Eastern Gulf Planning Area west of the Military Mission Line and one small area in the new Central Gulf Planning Area north of the Sale 181 Area that remain subject to the Presidential Withdrawal through 2012, but are not subject to the new 2022 moratorium under GOMESA. In addition, GOMESA repealed the congressional moratorium for the area in the Central Gulf Planning Area, known as “181 Area South.” [See Figure D: Map of Sale 181]

**5-Year OCS Oil and Gas Leasing Program (2007-2012)**

The MMS is nearing completion of a new 5-Year OCS Oil and Gas Leasing Program for sales beginning in July 2007 through June 2012. MMS is preparing the Proposed Final Program and Final Environmental Impact Statement (EIS) for issuance in April of this year. Pursuant to the OCS Lands Act, the Program will be sent to Congress and the President for at least 60 days before the Secretary approves the final program.

The Draft Proposed Program, issued in February 2006, contained 21 sales in seven planning areas—Western and Central Gulf of Mexico, Beaufort and Chukchi Seas, Cook Inlet and North Aleutian Basin off Alaska, and the Atlantic offshore Virginia.

Following scoping and public comment, the Proposed Program and Draft EIS were issued in August 2006. The sales in Alaska are proposed in response the State of Alaska and industry interest, especially the Chukchi Sea. The North Aleutian Basin, as well as the 181 South Area in the Gulf of Mexico and the Atlantic offshore Virginia were included as areas for further consideration of leasing should Congress and the President modify the pertinent congressional moratoria and Presidential Withdrawal language.

On January 9, 2007, the President modified the 1998 withdrawal to allow leasing in the North Aleutian Basin planning area offshore Alaska and the 181 South Area of the Gulf of Mexico. These actions were in response to the requests from Alaska state officers and local communities and enactment of the GOMESA respectively.

The analysis completed for the proposed 5-year plan indicated that implementing the new program would result in the anticipated production of an additional 10 billion barrels of oil and 45 trillion cubic feet of gas, with $170 billion in net benefits for the Nation over a 40-year time span. With the enactment of the GOMESA, these numbers will probably change. Those changes will be reflected in the Final Plan.

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[3] GOMESA was Title I of Division C of Public Law 109-432, an act to amend the Internal Revenue Code of 1986 to extend expiring provisions, and for other purposes.

In response to passage of the GOMESA, which directs lease offerings in two areas of the Gulf, MMS plans to move forward with this Congressional directive in connection with the new 5-year program. Adding these two important areas to the leasing schedule under the final 2007-2012 leasing program provides access to a potential 637 million barrels of oil and 2.8 trillion cubic feet of natural gas.

The first area consists of approximately 546,000 acres that lie within the Sale 181 area and in the Eastern Gulf Planning Area. MMS has begun preparation of a supplemental EIS to a previous National Environmental Policy Act (NEPA) document prepared in 2001 for Sale 181.

The second area consists of approximately 5.8 million acres in the deep waters of the Central Gulf and was included in the Proposed Program as an area for further consideration for leasing. In response to the GOMESA and modification of the Presidential withdrawal, MMS intends to prepare a supplemental EIS and include this area in the Central Gulf sale scheduled for March of 2009.

On the Atlantic coast, Virginia expressed an interest in looking into the gas resources off its coastline. While this area has been included in the Proposed Program and discussions continue, no leasing will occur in this area unless Congress lifts its moratorium and the President modifies the withdrawal to allow leasing activities to occur.

Sales proposed will be completed in compliance with the National Environmental Policy Act to analyze potential environmental impacts. Other laws, such as the Marine Mammal Protection Act and the Endangered Species Act, will be complied with.

**Renewables: Alternative Energy on the Outer Continental Shelf**

The United States faces a future of increasing energy demand causing a search for new sources of domestic energy supply. Our ocean frontiers may play a significant national role in this quest, particularly in the areas of new renewable and other alternative energy sources. MMS, drawing on its vast offshore engineering and environmental expertise, will work to help secure America's energy future while protecting the environment.

In addition to supplying the Nation with "traditional" energy resources, the OCS is poised to provide us with "alternative", renewable sources of energy such as wind, wave, tidal, and ocean current. Through new authorities established by the Energy Policy Act of 2005, the Department, specifically MMS, is establishing a regulatory framework to harness these potent energy sources. Our goal is to create a program that provides for meaningful dialogue with states and stakeholders; relies on sound environmental, engineering and scientific analyses; and culminates in a balanced approach that promotes safe and environmentally responsible renewable energy production.

Along with the program, MMS is preparing a programmatic EIS that will focus on general impacts from each industry sector based on global knowledge and identify key issues that future project or site-specific environmental analyses should consider. Our target is to make the programmatic EIS and draft rule available for public comment in the spring of this year, and finalize these documents in the near future.

The Energy Policy Act also gave the Secretary responsibility for two existing offshore alternative energy proposals, the Cape Wind Energy and the Long Island Offshore Wind Park projects. The MMS is reviewing each proposal and supporting information, and is preparing project-specific environmental analyses.

Cape Wind Associates (CWA) has proposed to construct an offshore wind park located on Horseshoe Shoal in Nantucket Sound, 4.7 miles offshore Massachusetts. The purpose of the project is to provide a utility-scale renewable energy facility project providing electricity to the New England Power grid. The proposed wind park will consist of 130 offshore wind turbine generators arranged to maximize the park's maximum potential electric capacity of approximately 454 megawatts. The draft EIS is anticipated to be available for public comment in late spring.

The Long Island Power Authority (LIPA) and Florida Power & Light (FPL) have proposed an offshore wind park located between 3 and 4 miles off the South Shore of Long Island, New York. The proposed wind park would entail installation of 40 turbines with a capacity of 140 megawatts of electricity for use in Long Island communities. The draft EIS is anticipated to be available for comment in late summer.

**Conclusion**

The Department of the Interior remains committed to doing its part to provide access to both traditional energy resources and alternative and renewable sources on Federal lands as a critical component of a balanced, comprehensive energy policy. For this reason, the Department has ensured that the OCS remains a solid contributor to the Nation’s energy needs. The relative contribution from Federal offshore areas will increase in the coming years due to increased access and increased activity in the deep waters of the Gulf of Mexico.

Mr. Chairman, this concludes my statement. I appreciate the continued support and interest of this Committee in MMS’s programs. It would be my pleasure to answer any questions you or other members of the Committee may have at this time.