THE AMERICAN ENERGY INITIATIVE, PART 1: A FOCUS ON OIL SUPPLIES, GASOLINE PRICES, AND JOBS IN THE GULF OF MEXICO

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND POWER

OF THE

COMMITTEE ON ENERGY AND COMMERCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

MARCH 17, 2011

Serial No. 112–22

Printed for the use of the Committee on Energy and Commerce

energycommerce.house.gov

U.S. GOVERNMENT PRINTING OFFICE

71–013 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
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C O N T E N T S

WITNESSES

SUBMITTED MATERIAL

THE AMERICAN ENERGY INITIATIVE, PART 1: A FOCUS ON OIL SUPPLIES, GASOLINE PRICES, AND JOBS IN THE GULF OF MEXICO

THURSDAY, MARCH 17, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND POWER,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:13 a.m., in room 2123, Rayburn House Office Building, Hon. Ed Whitfield (chairman of the subcommittee) presiding.

Present: Representatives Whitfield, Sullivan, Shimkus, Terry, Burgess, Bilbray, Scalise, Olson, McKinley, Gardner, Pompeo, Griffith, Barton, Upton (ex officio), Rush, Inslee, Green, and Capps.

Staff Present: Allison Busbee, Legislative Clerk; Garrett Golding, Legislative Analyst, Energy; Cory Hicks, Policy Coordinator, Energy & Power; Mary Neumayr, Counsel, Oversight/Energy; Jeff Baran, Democratic Senior Counsel; Alison Cassady, Democratic Senior Professional Staff Member; and Caitlin Haberman, Democratic Policy Analyst.

OPENING STATEMENT OF HON. ED WHITFIELD, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF KENTUCKY

Mr. WHITFIELD. I will call this hearing to order this morning. And the title of our hearing today is, "The American Energy Initiative."

Over the next weeks and months we intend to examine our domestic energy resources of all stripes that will diversify our energy portfolio, strengthen our national security, create jobs and perhaps most importantly make energy more affordable for all Americans. Of course, when we talk about energy, we talk about energy to generate electricity; we talk about energy for our automobiles, transportation. And today we are going to be focused a lot on that as well.

We are going to focus specifically on the Gulf of Mexico's relation to energy production, energy security, oil prices and jobs. Over the past several years, 30 percent of our total domestic oil production has come from the Gulf. Recent world events and market conditions have caused a sudden surge in oil prices. And it is in this context that we must thoroughly evaluate this Nation's current energy policy by asking questions like, are we doing enough to capitalize on all of our domestic resources? How can an increased domestic production influence prices and affect imports? What role does the oil and gas production in the Gulf play in our economic recovery?

New offshore exploration has taken a severe hit since the Deepwater Horizon blowout and spill. Without a doubt, the Deepwater Horizon spill was a serious environmental disaster. The human and ecological tolls are still being absorbed. But out of the disaster created by Transocean and BP arrived an economic disaster in the form of a moratorium on deepwater exploration issued by the Obama administration. Even since it was lifted in October, the Department of the Interior has only issued two permits to drill in the deepwater Gulf.

A Federal district court judge called the administration's actions unreasonable and unjustified. And even I notice a few days ago, former President Clinton characterized it as ridiculous.

Deepwater leases have become increasingly important to our domestic supply over the past two decades. While production from shallower regions have steadily declined, ultra deep production has grown at an annual rate of 15 percent since 2002. It is projected to continue this trajectory for the next several years. In fact, PFC energy projects that by 2020 over 50 percent of the Gulf's production will come from ultra deep waters. This projection, however, was made prior to this administration's moratorium. So we intend to get into all of these issues today.

We do know that as a result of the policy of this administration, we are getting 400,000 barrels a day of oil less than we currently had projected. And as a result of that, we are importing more from places like Nigeria, Libya, Saudi Arabia and Venezuela.

So we really look forward to your testimony today. Your testimony is very important. And as you know, at the end of your testimony, we will be having questions for you.

At this time I would like to recognize the gentleman from Louisiana, Mr. Scalise, for the purpose of introduction.

[The prepared statement of Mr. Whitfield follows:]

PREPARED STATEMENT OF HON. ED WHITFIELD

Today's hearing is the first in a series entitled "The American Energy Initiative". Over the next weeks and months, we will closely examine domestic energy resources of all stripes that will diversify our energy portfolio, strengthen our national security, create jobs, and, perhaps most importantly, make energy more affordable for all Americans.

In that context, I want to reiterate my support for a greater commitment to achieving energy independence through utilizing all of our domestic fuels - both traditional and alternative. The goal is that all of our domestic resources will play a vital role in achieving this. As a Representative from a coal producing state, I am particularly interested, for example, in supporting the development of advanced coal technologies and alternative fuels, as that provides an opportunity to create American jobs, cut our dependence on foreign oil and substantially reduce emissions. And I look forward to addressing these issues in the coming months as the committee continues to look at using all of our domestic sources to achieve energy independence and reduce the price of gas for American consumers.

Today's hearing specifically will focus on the Gulf of Mexico's relation to energy production, energy security, oil prices, and jobs. Over the past several years, 30 percent of our total domestic oil production has come from the Gulf. Recent world events and market conditions have caused a sudden surge in oil prices. It is in this context that we must thoroughly evaluate this nation's current energy policy by asking the following questions:

1) Are we doing enough to capitalize on all of our domestic resources?

2) How can increased domestic production influence prices and offset imports?

3) What role does oil and gas production in the Gulf play in our economic recovery?

New offshore exploration has taken a severe hit since the Deepwater Horizon blowout and spill. Without a doubt, the Deepwater Horizon spill was a very serious environmental disaster. The human and ecological tolls are still being absorbed.

But out of the disaster created by Transocean and BP arrived an economic disaster in the form of a moratorium on deepwater exploration issued by the Obama Administration. Even since it was lifted in October, the Department of Interior has only issued two permits to drill in the deepwater Gulf. A federal district court judge has called the Administration's actions ″unreasonable″ and ″unjustified″. Even former President Clinton just last week characterized it as ″ridiculous″.

Deepwater leases have become increasingly important to our domestic supply over the past two decades. Companies are not drilling there because it is easy or cheap. They go to the deepwater for the same reason Willie Sutton would - because that's where the oil is.

While production from shallower regions has steadily declined, ultra-deep production has grown at an annual rate of 15 percent since 2002. It is projected to continue this trajectory for the next several years. In fact, PFC Energy projects that by 2020, over 50 percent of the Gulf's production will come from ultra-deep waters. This projection, however, was made prior to the Administration's moratorium.

And it is at this point that we need to clarify many of the claims the Administration wants to make in the face of high gasoline prices. While overall domestic oil production is, in fact, meeting its highest level since 2003, it is folly to believe the lack of deepwater exploration has no consequences now and will not for the foreseeable future. EIA's 2007 Energy Outlook projected 2010 Gulf production would be 16 percent higher than it actually reached. And with relatively fast production declines from wells in the Gulf, constant exploration is an absolute necessity for stable production to occur. Because of the

Administration's actions, it will take years for Gulf production to make its way back to normal levels.

As we will hear from our witnesses, the Gulf has an important role to play in the global oil market. It also provides thousands upon thousands of jobs for not only households in the Gulf region, but the several industries across the nation that rely on business generated by robust Gulf exploration and production.

The Administration is holding these jobs hostage. And the American people realized it - a recent Rasmussen Poll indicates 76 percent of Americans believe we do not do enough to develop our own oil and gas resources. When it comes to domestic energy production, the Administration is on the wrong side of the public's wishes.

We also cannot fail to mention how important a secure source of energy is given today's global political climate. The 400,000 barrels a day we currently neglect to pump in the Gulf are simply made-up by imports from such places as Nigeria, Libya, Saudi Arabia, and Venezuela.

So today we want to have a discussion on how important the Gulf is to this nation's economy and security. We appreciate our witnesses' appearance here today and look forward to their testimony.

With that I yield the balance of my time to the gentleman from Louisiana, Mr. Scalise.

OPENING STATEMENT OF HON. STEVE SCALISE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. SCALISE. Thank you, Mr. Chairman.

I really appreciate you holding this hearing. This is an issue that we have been very concerned about for a number of months.

I really appreciate the panelists who have come here to talk about the issue and especially what is happening on the ground, because as we look at kind of big picture, American's are fed up with paying high gas prices at the pump. But what is going on behind the scenes, the actions that this President has taken to create this crisis is even more devastating along the Gulf Coast.

If you look at what is happening in the Gulf Coast, where over a third of America's domestic energy is produced, the President's policies are literally shutting this industry down. And I know we are going to be hearing testimony from people who represent a number of organizations, not the big guys that everybody talks about but the small companies, those small businesses that are trying to hang on, that want to go back to work exploring safely for energy here in the America, especially at a time when our country is looking out at the Middle East at a time when they have never been more volatile.

And yet the President has got a policy that is actually increasing our dependence on Middle Eastern oil. It is leading to higher gas prices. We have done a chart just to show how gas prices have skyrocketed since the President took the oath of office: $1.83 was the price of gas when President Obama was sworn in. Today it is over $3.50 and going higher. In fact, we had the Energy Secretary yesterday here before us. We asked him, what is the President's plan to lower gas prices? And he couldn't even tell us what that plan is.

Now, I did see yesterday that you can find out what the President's picks are for the Final Four. You can go to ESPN and watch the President making his Final Four picks, yet the Secretary of Energy, a Cabinet post, can't even tell you what the President's plan is to lower gas prices. This is a crisis. It is inexcusable that this administration is sitting by and forcing these industries to literally go bankrupt.

And I know we are going to hear stories about that, and I appreciate the panelists.

But we are fed up with this President's policies that are literally driving companies, American companies into bankruptcy; over 12,000 jobs already lost, gas prices skyrocketing, while the Middle East has never been more volatile.

I appreciate the chairman for letting us address this issue, and I look forward to your testimony.

I yield back.

Mr. WHITFIELD. Thank you.

I recognize the gentleman from Illinois for his opening statement, Mr. Rush.

OPENING STATEMENT OF HON. BOBBY L. RUSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. RUSH. Well thank you, Mr. Chairman.

Mr. Chairman, I have to say that was a pretty strange and unique introduction that we just heard.

But I want to thank you and also I want to thank the panelists for being here this morning with this committee.

Mr. Chairman, today's hearing is titled "The American Energy Initiative," but ironically, earlier this week, my colleagues on the other side of the aisle voted to handcuff one of the agencies that has helped move America forward by promoting energy conservation and making our vehicles, appliances, buildings and power plants more energy efficient.

Over the past four decades, the EPA has been at the forefront of promoting better gas mileage for cars and trucks, and saving American families millions of dollars at the pump, while also making us less dependent on foreign oil.

However, instead of offering any real solution or plans that would even remotely resemble an energy initiative, the Upton-Inhoffe bill that my Republican colleagues just passed through this committee will actually increase our reliance on fossil fuels, both imported and domestic, which is great for the oil companies but not so great for American families.

I am actually not opposed to domestic oil production, including drilling in the Gulf. As long as I am convinced that the devastating oil spill that we witnessed last year with BP's Macondo Well cannot and will not be repeated, I am in favor of domestic oil production and drilling in the Gulf.

While I understand that there are no guarantees in this business, I know that the risk that BP took can and should be mitigated. Therefore, I believe that the force of action that President Obama's administration took after the BP oil spill was prudent and was necessary. After witnessing the explosion that claimed 11 lives and watching 4 million barrels of oil gush into the Gulf for months without end, I believe it was reasonable and wise to halt drilling until we better understood what happened, why it happened and how we can better prepare ourselves so it will never, ever happen again.

And when the President lifted the moratorium last October, I also agree with the Secretary of Interior's assessment that drilling should resume, and I quote, providing the operators certify compliance with all existing rules and requirements and demonstrate the availability of adequate blowout containment resources. For me and for my constituents, the anguish and the grief of helplessly watching oil gush into the Gulf for months on end while BP and the Federal Government and every other entity remained stubborn has not faded from memory.

Yet I also understand that just as thousands of jobs and livelihood were impacted and continue to be impacted by the oil spill last year, there are also repercussions on jobs in our Nation's energy supply by not allowing drilling to continue in the Gulf. So today my hope is to gain an even better understanding of where we are now, a year later from the initial explosion and spill, and to find out what improvements have been made in regard to safeguarding against the same type of event from ever happening again.

I look forward to hearing from all of our witnesses on how their lives and their livelihoods have been impacted and their thoughts on how we can move forward.

Mr. Chairman, as I conclude, I just want to say that I do empathize with the people of the Gulf. I empathize with their fine representatives here and Mr. Scalise. And I look forward to seeing a day soon where the drills will be pumping and the sea, the fish and the seafood will be productive and on our plates and on our tables and in our foods all across this country. And I look forward to a time when the Gulf is thriving once again.

Thank you very much, and I yield back the balance of my time.

Mr. WHITFIELD. Mr. Rush, thank you very much.

STATEMENTS OF LUCIAN PUGLIARESI, PRESIDENT, ENERGY POLICY RESEARCH FOUNDATION, INC.; JOSEPH R. MASON, PROFESSOR, E.J. OURSO SCHOOL OF BUSINESS, LOUISIANA STATE UNIVERSITY; MARK COOPER, RESEARCH DIRECTOR, CONSUMER FEDERATION OF AMERICA; JAMES L. ADAMS, PRESIDENT, OFFSHORE MARINE SERVICE ASSOCIATION; RIP DANIELS, CEO/MANAGER, WJZD–FM, VICE PRESIDENT, MISSISSIPPI GULF COAST TOURISM COMMISSION; JAMES W. NOE, EXECUTIVE DIRECTOR, SHALLOW WATER ENERGY SECURITY COALITION; AND MARTIN W. MASSEY, CHIEF EXECUTIVE OFFICER, MARINE WELL CONTAINMENT COMPANY

Mr. WHITFIELD. And once again, I want to welcome the panel. We have a distinguished group with us this morning. We have Mr. Marty Massey, who is a chief executive officer of Marine Well Containment Company. We have Mr. Jim Noe, who is the executive director of the Shallow Water Energy Security Coalition. We have Mr. Rip Daniels, who is CEO and manager of WJZD and also vice president of the Mississippi Gulf Coast Tourism Commission. We have Mr. Jim Adams, who is President of the Offshore Marine Services Association. We have Dr. Mark Cooper, who is research director for the Consumer Federation of America. We have Dr. Joseph Mason, who is a professor at the business school at Louisiana State University. And then we have Mr. Lou Pugliaresi, who is the president of Energy Policy Research Foundation.

So I will recognize you, and you can give a 5-minute opening statement. And then, after the entire panel has completed, we will go into a question-and-answer period.

So thank you again for being here. And Mr. Massey, I will—sorry, I have been instructed that we want to give Mr. Pugliaresi the first opportunity to speak.

So we will recognize you for 5 minutes, and we will go that way. Thank you.

STATEMENT OF LUCIAN PUGLIARESI

Mr. PUGLIARESI. Chairman Whitfield.

Mr. WHITFIELD. And be sure to turn the microphone on, sir.

Mr. PUGLIARESI. Sorry.

Chairman Whitfield, Ranking Member Rush, and Members of the Subcommittee on Energy and Power, on behalf of myself and EPRINC we welcome this opportunity to testify today.

We think it is very important we move quickly to expand American employment, grow the economy and deliver adequate supplies of gasoline at affordable prices.

The Energy Policy Research Foundation is a not-for-profit organization that studies energy economics, with special emphasis on petroleum and the downstream products markets. We have doing this since 1944. Our reports are made available free of charge to all interested organizations and individuals.

We have recently done some work on Iraq's potential to expand world oil supplies, the Macondo oil spill, the role of ethanol in the American gasoline market, Keystone XL pipeline and the value of Canadian oil sands to the United States.

But today I want to know focus on two considerations that I hope the committee will give careful thought to as we look at how we expand domestic oil and gas development. First is that prices of transportation fuels today, they don't reflect just what is happening in the physical market now but, more importantly, what buyers and sellers believe about future supplies. And expectations about the future can affect prices today, and this includes expectations on government policies.

The next issue that I think the committee really needs to put a lot of effort into is the government policies related to oil and gas, including transportation fuels, that do not hold up well under uncertainty are likely to fail and impose very high costs on the American economy, its consumers and our energy security.

We are often told that every time we face a period of rising gasoline prices that commonsense measures, such as expanding access to the Canadian oil sands, opening up drilling on the onshore Alaska, permitting drilling in Arctic waters, expanding oil and gas leasing in new provinces in the lower 48, and deepwater drilling the Gulf of Mexico will bring supplies into the market too far in the future to help us with the current crisis or that the supply will be too small to make a difference.

Putting aside that we say this every time we have a crisis, if we open up our resources for development, we can open up the opportunity to shift long-term expectations on domestic supply and receive the benefits of lower prices even before the prices come to market.

We may even get some pleasant surprises such as we recently experienced with the shale gas revolution. The application of new technology and techniques in horizontal drilling and hydraulic fracturing learned in producing natural gas is now supporting rising onshore crude oil production in the Bakken Formation in North Dakota.

Now major and sustained shifts in the price of crude oil since the 1970s can be explained by changes in expectations about future output. For example, in the 1973 Arab Oil Embargo, we really didn't lose that much oil in the prompt period. But expectations about the growth of production from the Persian Gulf came way down and prices moved up quickly in the current period.

In 1979, during the Iranian revolution, once again, the amount of oil lost during the Iranian and the Iran-Iraq war was relatively small. But expectations about future growth of production from Iraq and Iran drove up prices in the prompt period. And the reason we say this—and I would like to submit for the record an article we published on this very topic in the Oil and Gas Journal, with your permission, Mr. Chairman.

Mr. WHITFIELD. Without objection.

Mr. PUGLIARESI. So this leads us to the question of, why is a highly aggressive program for domestic oil and gas development so important? What do we get out of that? And I think one of the things we can do is go back, look back just 5 years, what did we believe? We believed first that we were running short on natural gas. Right? Many people testified before this committee that the U.S. was going to be a massive importer of LNG and that we would have very little gas for the utility sector. But the shale gas revolution proved that completely wrong. We should be grateful for the independent oil and gas drillers who don't read the EIA forecast and have little confidence that the government knows exactly how much oil and gas we have in our resource base. And in fact, the shale gas revolution itself in 1 year has probably saved American consumers $50 billion.

We also had a common view that Latin America was fully explored. But we now see that with the deepwater discoveries in Brazil that that is no longer the case. We don't know how much oil we are going to have out of Latin America, but it is going to be huge.

Another concern we have is we have this view that the long-run price of oil is going to be very high, say $200 a barrel. And I think we would argue that that is going to turn out to be incorrect, that if we do the right kinds of things, the long-run price of oil is likely to be considerably lower and that a lot of the programs we are engaging into are going to turn out to be quite costly. We can transition to the fuels of the future at a much lower cost.

I just want to leave you with this one final point here: If we can alter the long-term price of crude oil by merely $20 a barrel in our base case forecast, $100 versus $80 or $60 instead of $80—I mean, $80 instead of $100, or $60 instead of $80, the present value savings to the import bill alone is a trillion dollars. The savings to the economy is more than twice that much. And so, in the end, this means that the jobs, return on capital, corporate and personal income taxes, government revenues from bonus bids and royalties would grow substantially. All of this can take place without taking on any government debt, will deliver sustainable economic growth, and we can put thousands of people to work tomorrow.

[The prepared statement of Mr. Pugliaresi follows:]

Testimony

before

Subcommittee on the Energy and Power
U.S. House of Representatives Committee on Energy and Commerce

Hearing
on
The American Energy Initiative
Oil supplies, Gasoline prices, and Jobs in the Gulf of Mexico

March 17, 2011
9:00 AM
Rayburn House Office Building
Washington, DC

Submitted by:

Lucian Pugliaresi
President
Energy Policy Research Foundation, Inc (EPRINC)
Washington, D.C.
www.eprinc.org

Chairman Whitfield, Ranking Member Rush, and members of the subcommittee on the Energy and Power, on behalf of myself and EPRINC we welcome this opportunity to testify on this topic so important for expanding American employment, growing the economy, and delivering adequate supplies of gasoline at affordable prices.

The Energy Policy Research Foundation, Inc. (EPRINC) is a not-for-profit organization that studies energy economics with special emphasis on petroleum and the downstream product markets. EPRINC has been researching and publishing reports on all aspects of the petroleum industry since 1944. Our reports are made available free of charge to interested organizations and individuals. We are known internationally for providing objective analysis of energy issues. We recently published reports on Iraq's potential to expand world oil supplies, the Macondo oil spill, and the role of ethanol in the American gasoline market, the Keystone XL pipeline expansion and the value of Canadian oil sands to the United States.

My testimony will examine two important considerations that EPRINC believes the committee members should address as the Congress examines policies for the development of domestic oil and gas development: (1) Prices of transportation fuels today reflect not only what is happening in the physical market, but more importantly what buyers and sellers believe about future supplies. Expectations about the future can affect prices today, and this includes expectations on government policies. (2) Government policies related to oil and gas (as well as alternative transportation fuels) that do not hold up well under uncertainly, are likely to fail and will almost certainly impose high costs on the American economy, its consumers, and harm U.S. energy security.

We live in a global market for both crude oil and petroleum products. In this global market, prices are determined by not only what is happening now but on the expectations held by both buyers and sellers regarding future production. We are often told, every time we face a period of rising gasoline prices, that many common sense measures, such as expanding access to the Canadian oil sands (such as would be possible with the Keystone XL pipeline), opening up drilling in onshore Alaska, permitting drilling in arctic waters, expanding oil and gas leasing in new provinces in the lower 48, and even deepwater drilling in the Gulf of Mexico will bring new supplies into the market too far in the future to help us with the current crisis – or that the supplies will be too small to make a difference.

Putting aside that we say this every time there is a crisis in world oil markets, this is a much too simplified view of the oil market. If we open up our resources for development, we can open up the opportunity to shift long-term expectations on domestic supply and receive the benefits of lower prices even before the supplies come to market. We may even get some pleasant surprises such as we recently experienced with the shale gas revolution. The application of new technology and techniques in horizontal drilling and hydraulic fracturing learned in producing natural gas is now supporting rising onshore crude oil production in the Bakken formation in North Dakota.

Ultimately, prices in the world oil market are set by the fundamentals of supply and demand. However, crude oil prices at any given moment reflect a wide range of considerations that go well beyond immediate conditions in the market. Important among these considerations are expectations about future events including world demand, technological advances, availability of skilled workers, availability of supplies, replacement cost of new supplies, technical and political risk, war, terrorism, and government policies. In many cases, the immediate loss in output from any number of unexpected events has much less effect on the world market than the resulting shift in expectations about the ability to expand output over the next 5-10 years.

Major and sustained shifts in the price of crude oil since the early 1970s can be explained by changes in expectations about future output. For example, the important consequence of the 1973-74 Arab oil embargo was the structural shift in the ownership and control of the vast resources of the Persian Gulf region. The embargo, by changing expectations about future production levels from the major Middle East oil producers, brought about a sustained increase in the value of oil immediately.

The second oil price shock, in 1979, can be seen in a similar light as the Iranian revolution also sent a signal that the region was in for a period of instability and that the prior view that future output from Iran and Iraq would expand substantially was no longer likely. In both cases, prices in the initial days of the Iranian revolution were affected by changing expectations about future production levels. The subsequent fall in oil prices in the mid-1980s can be linked to a fundamental shift in medium-term expectations about supply and demand as consuming countries engaged in fuel substitution, conservation, and expanded output of conventional oil production throughout the OECD. Even the increases in oil prices in 2008 follow a similar pattern. This analysis is explained in some detail in an article published in the *Oil and Gas Journal*, by myself and Ben Montalbano on July 7, 2008. If possible, we would like to submit it for the committee record.

Why is a highly aggressive program for domestic oil and gas development so important? How should we respond to those that say the U.S. resource base is too small to make a difference? Here is a brief history is worth mentioning. If you go back just five years, the conventional wisdom among both government and many industry experts was based on the following assumptions:

1. *The U.S. is running short on natural gas and we are facing a future of high natural gas prices and massive imports of LNG. The utility sector will not have access to plentiful and low priced natural gas.* Nearly everyone believed this and since humility is not a strong feature among government forecasters, this was the central message received by Congress. Fortunate for us, independent oil and gas drillers do not pay attention to government forecasts or the conventional wisdom. The August 2016 futures price for natural gas is now less than $6/mcf, but was trading as high as $8/mcf at the end of 2009. It is moving lower because buyers and sellers "expect" substantial supplies well into the future.

   Surprises like the surge in unconventional gas supplies provided immediate relief to the economy. In 2010, the U.S. consumed 24 tcf of gas at a wellhead price of approximately $4.16/mcf compared to $7.97/mcf in 2008 and $6.25/mcf in 2007 despite record high U.S. gas consumption. This lower price was due mainly to a supply expansion caused by the shale gas boom. Without these additional supplies, prices would likely have been at least $2/mcf higher, and probably somewhat more as the U.S. would have had to compete on the international LNG market and driven prices higher. The $2/mcf reduction in natural gas prices provided U.S. gas consumers (private residents for home heating, power plants, industrial users, CNG vehicle fleets, etc.) with a savings of at least $48 billion in 2010. These savings translated into higher employment and greater revenue for federal, state, and local governments. A 2009 study by Penn State estimated employment for Pennsylvania alone for shale gas production at nearly 50,000 and nearly $4 billion in value added to the state. The numbers have risen substantially since then.

2. *Latin America is fully explored with little opportunity for additional discoveries.* The deepwater discoveries off the coast of Brazil suggest otherwise. Whether Brazil is a game changer remains to be seen, but our view of the offshore prospects in Latin America have clearly changed to a more positive outlook.

3. *We are running out of oil and the long run price of oil is likely to be very high, perhaps in the range of $200/bbl or more.* Although world oil markets are subject to considerable turmoil, the prospects for a much lower price path to the fuels of the future are gaining momentum. For example, between new production in Iraq and continued development of the oil sands in Canada, the world oil market could see production expand by 10 million barrels/day over the next ten years.

4. *U.S. gasoline demand was expected to grow at high and sustained rates. Mandated use of ethanol was viewed as essential and expected to bring relief to gasoline prices.* This is a classic case of a policy that failed to consider a range of outcomes. Corn prices doubled between June 2010 and March 2011 following the Russian wheat fires and world commodity rally. USDA has repeatedly revised downwards its estimates for this year's corn harvest, yield per acre, and inventories. Gasoline demand has not grown and instead is likely to remain relatively flat. However, volumetric targets for ethanol are mandated by law and cannot be adjusted to shifts in market conditions. We are now reaching the point where these mandated volumes are likely to add to gasoline prices rather than provide much needed relief.

If we move forward with an aggressive oil and gas development program in the U.S., there are no guarantees that it will deliver substantially lower oil prices. However, we can certainly guarantee that outcome if we fail to act. An aggressive oil and gas development program is a strategy that holds up well under uncertainty. It allows risk taking by a broad range of investors throughout the American economy with different approaches and new and unique technologies. It will signal buyers and sellers that the U.S. is serious about bringing domestic supplies to market and opens up the resource base to American technology and ingenuity.

I will leave you with a statistic worth thinking about, if we can alter the long-term price of crude oil by $20/bbl, over any base forecast price (say $80/bbl instead of $100/bbl), the present value savings in our import bill alone would be $1 trillion and it would easily be twice that for the national economy. This means the jobs, return on capital, corporate and personal income taxes, government revenues from bonus bids, and royalties would also grow substantially. All of this can take place without taking on any government debt, will deliver sustainable economic growth, and at the same time put thousands of men and women back to work.

Mr. WHITFIELD. Thank you very much.

Dr. Mason, you are recognized for 5 minutes.

STATEMENT OF JOSEPH R. MASON

Mr. MASON. Thank you.

Good morning, Chairman Whitfield, Ranking Member Rush and members of the subcommittee. Thank you for the opportunity to testify on this very important topic today.

Unfortunately, little has changed in the Gulf region since my initial study on the economic costs of the Gulf moratorium in July 2010. Economic activity is still moribund in the region, and the outlook for exploration development remains subdued. Each day, more exploration and development activity in the Gulf is lost. Job losses previously estimated on the basis of a 6-month moratorium have increased from 8,000 regionally and 12,000 nationally, to 13,000 regionally and 19,000 nationally. Lost wages of $500 million regionally and $700 million nationally, are now $800 million regionally and $1.1 billion nationally. Lost tax revenues estimated to be $100 million on the State and local level and $200 million on the national level, now amount to $155 million and $350 million respectively.

The Fed's August 2010 Beige Book noted that factories, farms and mines nationally were all saying, "Continued gains in demand and sales" while housing sales and the related construction industry slowed.

But in the Atlanta district, "Fewer manufacturers noted increases in new orders and more said that orders were lower."

In the Dallas district, the Fed reported directly, "The deepwater drilling moratorium was expected to impact revenues."

Still economic deniers seem to be unable to accept the fact that restrictive economic policies targeted to our most productive economic sectors weaken economic growth.

That growth won't be recovered either. The lost development and drilling progress in the permatorium have already created a lag in production. The concept can be thought of simply in the context of shutting down a construction project or production line. When you start it back up, you don't make up for lost progress; you just continue where you left off. Moreover, if you constrain the production line to work slower than before and don't replace the machinery when it wears out, production will decline further, perhaps to a much lower rate. That is already happening in the Gulf, and recent recovery projections illustrate that dynamic.

But even those projections don't contain the effects of additional restrictive policies. President Obama's fiscal year 2012 comprehensive budget proposal includes an estimated $37 billion of punitive tax policies for U.S. Oil and gas firms. Repealing tax breaks for hiring domestic workers when unemployment is hovering at 10 percent just doesn't make sense. And double taxing foreign revenues of domestic oil and gas firm puts them at a severe disadvantage competing against state-run, heavily subsidized oil and gas companies in such countries as China, Russia and Venezuela, which brings us to the international perspective.

None of the decline in Gulf production arising from restrictive U.S. policies means that worldwide production will be affected. As projects in the Gulf and elsewhere in the U.S. are abandoned, firms will rationally move to locations with more stable and predictable business climates, whether or not those are held together by authoritarian regimes or are environmentally favorable.

All the production possibilities discussed previously are being foregone in the name of Deepwater Horizon, but while debate still rages about the causal factor of the disaster, one common thread is accepted by all, BP. Nonetheless, the first deepwater permit issue to the Santiago well on March 11th went to a project 46.5 owned by BP. It seems to me, therefore, that BP is the one firm undeniably culpable, but BP was the first rewarded with continued drilling access. That doesn't make sense.

Economically it has to be realized that any regulatory policy that raises pecuniary and or nonpecuniary production costs will slow economic output. Whether the industry is mortgage banks facing onerous terms of a State Attorney's General Consumer Financial Protection Bureau settlement or the oil and gas industry facing increased environmental compliance costs and a permatorium, in both cases, that means less jobs, lower wages and lower GDP growth than would otherwise occur. Those are immutable laws of economics.

Last, I would be remiss if I did not point out that the Japanese, following a devastating earthquake, are experiencing problems in nonfossil fuel power plants. While fossil fuels have their faults, other alternatives are only cleaner in terms of carbon output. Each, however, still pollutes in its own way. And as new energy sectors develop, each is leaving new economic externalities, that is on priced byproducts of production and use, that promise to devastate the environment in amounts equal to or greater than carbon-based fossil fuels.

There is no environmental economic free lunch. There is no clean energy, just energy. The sound policy focus would be to use all of it wisely. Thank you.

[The prepared statement of Mr. Mason follows:]

Testimony of Joseph R. Mason, Louisiana State University[1]

before the

Subcommittee on Energy and Power
Committee on Energy and Commerce
U.S. House of Representatives

"The American Energy Initiative"

March 17, 2011
Embargoed until release: 9:00 am

2123 Rayburn House Office Building

[1] Views expressed in this testimony are those of the author and do not necessarily reflect official positions of Louisiana State University.

Thank you for the opportunity to testify on this very important topic. Unfortunately, little has changed in the Gulf region since my initial study on the "The Economic Cost of a Moratorium on Offshore Oil and Gas Exploration to the Gulf Region," in July 2010. Economic activity is still moribund and the outlook for exploration and development remains subdued.

Moreover, many in the Obama administration continue attempting to "wish away" immutable laws of economics. After halving their own economic estimates of the costs of the moratorium and ignoring the National Commission on the Deepwater Horizon Oil Spill and Offshore Drilling's Chief Counsel's dissent to the official Report pointing out BP's primary culpability, the administration remains bent on punishing the entire industry and holding back valuable OCS development and imposing costly new regulations on one of the largest industries in the nation while irrationally hoping for job and economic growth.

In the final plot twist, when Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) finally issued their first deepwater permit a few weeks ago after inexplicable delays, they issued that to a project reported by Reuters on March 1, 2011, to be held 46.5% by BP.

US energy policy – including Gulf drilling safety policy – therefore currently seems woefully out of balance.

I. Update on Lost Economic Activity

Without wages, job losses mount and economic growth in the Gulf region lags further behind the rest of the nation. Ironically, the Fed's August 2010 Beige Book noted specifically that factories, farms and mines were all seeing "continued gains in demand and sales," while housing sales—and the related construction industry—slowed.

In the Atlanta district, "Manufacturing contacts reported that overall activity was expanding, but at a slower pace than in the previous report. Fewer District manufacturers noted increases in new orders, and more said that orders were lower."

In the Dallas district, "the deep water drilling moratorium [was expected to] impact revenues, but strong domestic land and international activity is mitigating the impact." Hence, the moratorium selectively cut off a primary source of economic growth not only for the Gulf region, but the nation, and devastated economies less diversified with respect to offshore drilling.

Those losses are most easily seen in multiplier estimates updated for the additional length of the de facto moratorium on deepwater development. Using the same methods described in my earlier report – but accounting for delays following the official end of the moratorium – is it apparent that economic losses to the region continue to mount.

Table 1 shows that output losses continue to mount with stalled development in the Gulf, rising from $2.1 billion regionally and $2.8 billion nationally to $3.3 billion and $4.4 billion, respectively. Job losses are estimated to have increased from 8,000 regionally and 12,000 nationally to 13,000 regionally and 19,000 nationally. Lost wages previously estimated to amount to $500 million regionally and $700 million nationally are now $800 million regionally and $1.1 billion nationally. Finally, lost tax revenues estimated to be $100 million on the state and local level and $200 million on the national level now amount to $155 million and $350 million, respectively.

Table 1
Summary of Potential Lost Economic Activity

	Total GOM	Total U.S
Output ($ Mil)	-$3,341	-$4,384
Employment (Jobs)	-12,935	-19,073
Wages ($ Mil)	-$772	-$1,119
State & Local Taxes Revenues ($ Mil)	-$155	N/A
Federal Tax Revenues ($ Mil)	N/A	$347

Note: Production is assumed to be stopped for nine and a half months, the present delay. Losses are expected to accrue over 12 months following the start of the moratorium, on May 30th, 2010.

Each day, more exploration and development activity in the Gulf is lost. The lost output will not be regained and the lost wages cannot be spent. We knew all along that even the most honorable businessmen could not support their workers without revenue income in the long term. We are now progressing into that long term. As rig workers and other employees directly related to oil and gas development tighten their belts or leave the region, the rest of the region suffers.

II. Outlook for Redevelopment

Immutably, the lost development and drilling progress will create a lag in production. The concept can be though of simply as shutting down a construction project or production line – when you start it back up you don't make up for lost progress, you just continue from where you left off.

The recent Wood Mackenzie study on "The Impact of Gulf of Mexico-Deepwater Permit Delays on US Oil and Natural Gas Production, Investment, and Government Revenue," (December 2010) illustrates the dynamic. Wood Mackenzie calculated base case net present values and rates of return for development of twenty five "...identified, but undeveloped, deepwater GoM fields that Wood Mackenzie had classified as probable for development before 2020," modeling each with production profiles and associated capital and operating costs updated for the new BOEMRE regulatory requirements. The study limited out-of-pocket regulatory costs at merely the $1.42 million per well estimate of increased safety related costs provided by BOEMRE. The study then estimated the economic viability of the twenty-five fields under scenarios of (1) no further permitting delay (according to current expectations for timing), (2) an additional one-year delay, and (3) an additional two-year delay.

Merely the base case scenario, including only the additional costs of BOEMRE regulation, rendered ten fields with total estimated reserves of 1.88 billion boe (bnboe) – or 37% of the of the twenty five fields analyzed – uneconomical for investment.

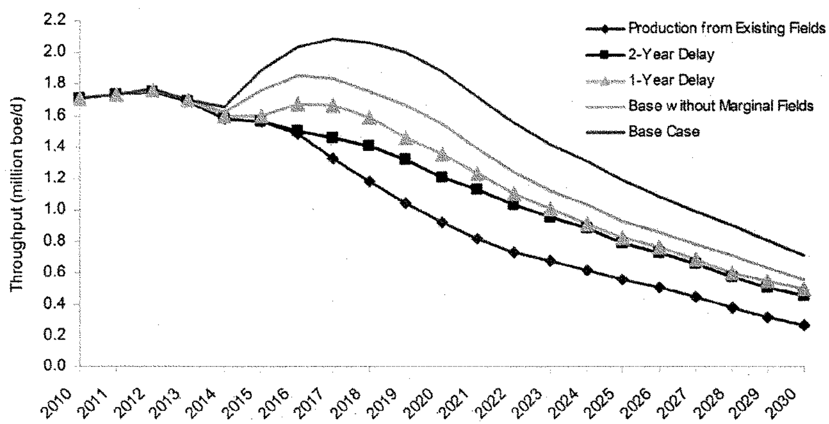
Assuming one year of additional regulatory delays on top of the out-of-pocket costs renders thirteen of the twenty-five fields with total recoverable reserves of 2.7 bnboe, or more than 52% of the twenty five fields analyzed, uneconomical.

With an additional two-year delay, seventeen of the twenty-five fields with total recoverable reserves of 3.1 bnboe, or more than 61% of the twenty five fields analyzed, are uneconomical for investment.

The Wood Mackenzie findings suggest that a full 24% of their 12.77 bnboe total estimate of remaining commercial reserves (onstream, under-development, and probables) in the deepwater Gulf would be uneconomical under the new regulatory requirements and associated delays.

It is also interesting to point out that in the Wood Mackenzie scenarios, existing projects with significant sunk costs are usually the ones left viable because of the shorter term to completion after the delays. Completely new projects, however, are the ones usually not undertaken. Hence, the profile of production from Gulf resources in the Wood Mackenzie scenarios rises past the 2012 production peak (based on existing wells) to about 2016-17 and then falls uninterrupted as the replacement rate for older wells declines. (See below.)

Figure 1: Deepwater Gulf of Mexico Production Projections



Wood Mackenzie, "The Impact of Gulf of Mexico-Deepwater Permit Delays on US Oil and Natural Gas Production, Investment, and Government Revenue," December 2010, p. 14.

Nonetheless, even in the base case scenario without the marginal fields (the orange, or second-highest line in the figure) enough future production is rendered uneconomical due solely to increased regulatory cost burden that the future peak of 2016 only barely exceeds the 2012 peak from existing resources before the well replacement rate falls below zero and

Gulf production inexorably declines. With a one-year regulatory delay (the line with the triangles), the future peak in 2017 lies *below* the 2012 maximum before production tails off. A two-year delay (indicated by the line with the squares) merely mitigates the tail off, with no future production peak. Hence, the current policy of delay is in reality merely a mechanism to shut down Gulf production by rendering future development – and therefore production – uneconomical.

But BOEMRE regulations and delays are not the only costs threatening U.S. oil and gas operations. The administration's comprehensive budget proposal for the 2011 fiscal year included repeals of Section 199 of the American Jobs Creation Act and Section 1.901-2 of the U.S. Department of the Treasury Regulations ("dual capacity").[2] Those changes would eliminate domestic and international tax credits for the U.S. energy sector and other crucial industries. Although regulators are hoping to raise substantial revenues from the repeals, the economic cost of the regressive legislation could further debilitate the oil and gas sector.

Section 199 was enacted by President Bush in 2004 to provide taxpayers benefits for production activities in the United States. The provision grants a "deduction equal to a percentage of the lesser of 'qualified production activities income or taxable income." Under the provision, labor-intensive corporations are particularly favored by being able to deduct a percentage of domestic production activity each year. Tellingly, the repeal would apply solely to oil and gas firms.

Dual capacity credit, on the other hand, allows companies to deduct taxes on incomes from abroad, offsetting relatively high U.S. taxes on foreign incomes. Hence, the dual capacity regulation is a way for American firms to compete efficiently against foreign competitors. In repealing the dual capacity credit, therefore, the current administration would effectively double-tax firms conducting business in many foreign countries. Although the change applies to all corporations, the energy sector will be put at a strong disadvantage when competing against state-run heavily-subsidized oil and gas companies in such countries as China, Russia and Venezuela.

Which bring us to the international perspective. None of the decline in Gulf production envisioned by Wood Mackenzie need mean that worldwide production will be affected. As projects in the Gulf and elsewhere in the U.S. are abandoned, firms will move operations to search for returns from locations with more stable and predictable business climates, whether or not those are held together by authoritarian regimes or are environmentally favorable.

III. Perspective on the OCS and U.S. Energy Policy

The new BOEMRE policies reach far beyond the Gulf. Recall that prior to the Deepwater Horizon disaster, the Minerals Management Service was authorized to examine offering exploration leases from 2010 to 2015 for previously closed areas on the U.S. Outer Continental Shelf, including tracts along the East Coast and off the coasts of Alaska and

[2] Congressional Budget Office. (2011) Budget of the United States Government, Fiscal Year 2011. Washington, D.C.: U.S. Government Office of Management and Budget. Retrieved from <http://www.whitehouse.gov/omb/budget/Overview/>

California. The MMS acknowledged even then that while their own estimates show that the Outer Continental Shelf holds 86 billion barrels of oil and 420 trillion cubic feet of natural gas, offshore areas could potentially contain much more oil and gas and have not been explored in 25 years.

Prior to the Deepwater Horizon disaster, President Obama was in favor of the plan. My own study at the time, "The Economic Contribution of Increased Offshore Oil Exploration and Production to Regional and National Economies," (February 2009) suggested that the value of just the resources already *known* to MMS stood at $73 billion in economic output per year, generating $16 billion in annual wages, $15 billion annually in taxes, and 270,000 jobs in the exploration and development phase, alone. Over the life of the fields, those resources can be expected to generate $273 billion in economic output per year, generating $70 billion in annual wages, $73 billion in local, state, and Federal tax revenues, $14 billion in Federal royalties, and 1.2 million jobs.

Hence, the economic value of OCS resources is big. But increased environmental costs and regulatory delays hurt those projects, as well. It is important, therefore, to plan BOEMRE policies with not just the Gulf, but all U.S. resources, in mind.

IV. Causal Analysis Still Focuses on BP

All the production possibilities discussed above are being foregone in the name of Deepwater Horizon. But while debate still rages about the causal factor of the disaster, one common thread is accepted by all: BP. President Obama's National Commission on the Deepwater Horizon Oil Spill and Offshore Drilling laid blame on all involved, but it in no way exonerated BP. In fact, the Commission General Counsel's dissent laid the blame squarely at the feet of BP.

Nonetheless, the first deep water permit – issued to the Santiago well on March 11, 2011 to resume drilling in the Mississippi Canyon area of the Gulf, about 70 miles (110 km) south of the Louisiana coast – still went to a project 46.5% owned by BP. It seems to me, therefore, that BP is undeniably culpable but BP was the first to be rewarded. That doesn't make sense.

V. Moving Forward

It is time to move forward. But to do so, some political entity will have to take a risk. It will not be the regulatory agency, BOEMRE, because regulators strive to avoid risk from *both* the industry they regulate and the politicians who appoint them. As we are seeing in the technological fixes, BOEMRE will not approve new environmental safety technologies, they will only yield a "no-objection" letter of assent. Without pressure by Congress or the President, therefore, the industry is unlikely to be allowed to move forward.

It also has to be realized, economically, that any regulatory policy that raises pecuniary and/or nonpecuniary costs will slow production. Whether the industry is mortgage banks facing onerous terms of a state Attorneys General / Consumer Financial Protection Bureau settlement or the oil and gas industry facing increased environmental compliance costs and a permatorium, production will inevitably decline in response to higher costs and greater political uncertainty. In both cases, that means less jobs, lower wages, and lower GDP growth than would otherwise occur. Those are immutable laws of economics, that will bind whether policymakers like them or not.

Last, I would be remiss if I did not point out that the Japanese problems are being experienced in *non*-fossil fuel power plants. While fossil fuels have their faults, other alternatives are only cleaner in terms of carbon output. Each, however, still pollutes in its own way. Moreover, as new energy sectors develop, they are leaving new unpriced externalities in their wake that promise to devastate the environment in amounts equal to or greater than carbon-based fossil fuels. Whether it is radioactivity and nuclear waste, heavy metals in batteries and their production, abundant fresh water necessary for solar panel production, or rare earth metals and noise pollution from wind sources, there is no environmental "free lunch." There is no "clean" energy, just energy. Let's use all of it wisely.

Mr. WHITFIELD. Thanks, Dr. Mason.

Dr. Cooper, you are recognized for 5 minutes.

STATEMENT OF MARK COOPER

Mr. COOPER. Thank you, Mr. Chairman, Members of the Committee.

Since the Arab Oil Embargo of 1973, it has been clear that the United States must reduce its consumption of oil. Seven Presidents have talked about this urgent need, and even President Bush, an oil man from Texas, declared that we must end our oil addiction.

In the past, we have failed to do so. Yet today the United States has a better opportunity than ever to change the trajectory of the American oil consumption, lower consumer expenditures, reduce our dependence on Mideast oil and enhance national security by dramatically increasing the fuel economy of the vehicle fleet. The need is urgent, as gasoline prices are pummeling household budgets, especially of the middle class.

Public support for a 60-mile-per-gallon standard is at an all-time high. The economics of putting fuel savings technology into automobiles and light trucks have never been more favorable. And because of the foresight of Congress, over a dozen States and the Obama administration, policymakers have a better set of tools to respond to the challenge than ever.

The most important thing that we can do for consumers in the short term is to make a long-term commitment to reduce American oil consumption. Efficiency is the least-cost most-certain cleanest energy resource we have for our American energy initiative. Quick fixes simply delay the day of reckoning and make it more painful when it comes.

U.S. gasoline prices this year will hit an all time high if the EIA is correct, as will household expenditures. For low- and middle-income households the cost of gasoline will be the single most determinant of the cost of driving, exceeding ownership cost. Driven by high and volatile prices, we find that concern about gasoline is that an all time high. Ninety percent of the respondents to a recent survey said they were concerned about price; 89 percent said they were concerned about Mideast imports. This high level of concern translates into high support for fuel economy standards. We asked about 60 miles per gallon, 63 percent said they support that as a target for 2025; 70 percent of middle class respondents did.

Now as a consumer group, we always start our economic analysis from the consumer pocketbook. And we find that the public support for a 60-mile-per-gallon standard is in fact justified by the economics. Our analysis shows that from the first month, the reduction in gasoline costs exceed any increase in the cost of the new technology in vehicles. It is cash-flow positive in the first month of a 5-year auto loan. And at the end of the auto loan, the consumer has over approximately 2,000 more in their pocketbook. Our confidence that consumers will realize these benefits and that a 60-mile-per-gallon standard will be met and effective is reinforced by the increase in technologies and choices available in the marketplace.

There are now or will soon be four different approaches to electric vehicles, hybrids, plug-ins, hybrid plug-ins and extended-range electric vehicles, offered across the full range of cars that consumers in America like, compacts, midsized, family sedans, large cars, SUVs and pickups, by over a half dozen mass-market-oriented companies.

Gasoline-powered vehicles already rival the mileage of some of the hybrids, and there is lots of room for improvement with greater technologies in engine combustion efficiency, transmission systems, vehicle body design, rolling resistance and materials.

But the trump card here is the fact that over the last 5 years, we have put in place in America the possibility for a pro-consumer, pro-competitive, technology-neutral fuel economy standards program. We have adopted an attribute-based system, which ensures that Americans will have the choice of cars they want and automakers will have the incentive to compete to sell those precise types of cars.

Fifteen States have adopted the Clean Cars Program. One-third of the people in this country live in those States, which stimulated the development of electrics and pushed the Feds to a higher level. And the Obama administration has in fact transformed the institutional structure of standard setting in America, coordinating between the Federal and the State level, showing that a 62-mile-per-gallon standard is technically feasible and economically practical.

And proposing a 15-year target, the long-term view allows the auto industry and the public to adjust. It reduces the marketplace risk of higher standards. It reorients thinking and gives them time to retool. This is the moment to change the trajectory of American gasoline consumption, to put efficiency as the first step in the heart of the American energy initiative. Thank you.

[The prepared statement of Mr. Cooper follows:]

Consumer Federation of America
1620 I Street, N.W., Suite 200 * Washington, DC 20006

TESTIMONY OF DR. MARK COOPER
DIRECTOR OF RESEARCH

on the

"THE AMERICAN ENERGY INITIATIVE"

Energy and Commerce Committee
March 17, 2011

Mr. Chairman and members of the Committee,

Today the United States has a better opportunity than we have had in decades to change the trajectory of our country's gasoline consumption, lower consumer expenditures, reduce our dependence on Mid-East oil and enhance national security by dramatically increasing the fuel economy of the vehicle fleet.

- The need is urgent, as high gasoline prices are pummeling household budgets, especially those of the middle class.
- Public support for much higher fuel economy standard – 60 miles per gallon by 2025 – is at an all time high.
- The economics of putting more fuel savings technology into automobiles and light trucks have never been better more favorable to consumers.
- The opportunity to put more fuel savings technology into automobiles and light trucks have never been greater, so much so that Toyota and General Motors executives have declared publicly that they can meet a 60 mpg standard by 2025.
- And because of the foresight of the Congress, over a dozen states, and the Obama administration, policy makers have a better set of tools to respond to the challenge of our oil addiction than ever.

Now is the moment to achieve what every President since the first oil embargo has declared as a national goal, but failed to accomplish, reducing dependence on mid-East imports. The most important thing that we can do for consumers in the short term is to make a long term commitment to reduce our gasoline consumption by improving the fuel economy of our vehicles. Quick fixes will simply delay the day of reckoning and make it more painful when it comes.

In my testimony today I will briefly review each of these points and summarize the detailed analyses that support them, which I have submitted for the record.

RISING HOUSEHOLD EXPENDITURES

The Energy Information Administration (EIA) recently projected an average gasoline price for 2011 of $3.56 per gallon. If the EIA is correct then:

- U.S. gasoline prices will be higher this year than ever measured in either current (nominal) or inflation-adjusted (real) dollars.
- U.S. household expenditures on gasoline will be higher than ever, likely to exceed $2800.
- For low and middle-income households gasoline will be the single largest expense in their cost of driving, exceeding the cost of owning a vehicle.

Regardless of the precise percentages, the rise in gasoline costs is changing the way people think about vehicle purchases. Our earlier analysis shows that after the first price spike in the early 2000s, people began to shift their buying patterns. Indeed, U.S. auto makers did not react quickly to this shift, which was a factor in the demise of two of the big three U.S. automakers. The two automakers that went bankrupt in the recession of 2008-2009 had among the lowest average fuel economy of the major firms that produce a full line of vehicles for the U.S. market.

PUBLIC CONCERN ABOUT GASOLINE AND SUPPORT FOR FUEL ECONOMY STANDARDS

Driven by high and volatile prices and expenditures, we find that concern about gasoline prices is higher than in any of the previous 11 surveys we have conducted since 2005.

- In responses to a national random-sample public opinion poll conducted from March 3-6, 90% of respondents said they are concerned about gasoline prices, 79% said they are greatly concerned.
- In contrast to the 79% greatly concerned about prices today, great concern in past surveys has been in the range of 47% to 74%. The increase from the last survey of more than 20 percentage points is the largest we have observed.

It is not only price that concerns the survey respondents. Respondents are also concerned about Mid-East oil dependence.

- Eighty nine percent of respondents (89%) are concerned about Mid-East oil dependence. Here, too, this is the highest level of concern ever registered in our surveys. In fact, the jump in concern about Mid-East dependence is even larger than the increase in concern about price.
- The percentage that is greatly concerned, 74%, is much higher than in the past, when the greatly concerned percentage never exceeded 60.

This high level of concern is reflected in another important attitude about cars: support for higher fuel economy standards.

- Sixty-three (63) percent say they support a fuel economy standard of 60 miles per gallon, which is a level twice as high as the current standard.

- The 63% who support a 60 mpg standard is up four percentage points from this time last year.

We find that middle-income respondents express greater concern and greater support for a high standard.

- Middle income respondents (income between $25,000 and $75,000) have very high levels of concern about price (83%) compared to other households (74%).
- Middle-income respondents express more support for a 60 mpg standard (70%) than other households (60%).
- The higher levels of concern and support in the middle class compared to other groups are a shift from the past.

CONSUMER ECONOMICS OF A 60-MPG STANDARD FOR 2025

As a consumer group we always begin our policy analysis with a consumer pocketbook view. The average consumer finances an auto purchase with a five-year auto loan.

We analyze three points in time from the consumer pocketbook point of view – cash flow in the first year, the net consumer position at the end of the loan life and the net position when the vehicle is retired (set at ten years). Given that we use annual averages, the first year is the equivalent to the immediate impact on cash flow. The five-year point is the end of the loan, which means that at that point, investing in more fuel efficient technology would no longer claim any household resources. The end of vehicle life is the point at which the total value of high fuel economy has been extracted from the vehicle.

We assume a five-year auto loan at seven percent interest, which is high by today's standard (but it is the average rate for auto loans over the past twenty years). We add the cost of technologies to increase efficiency to the total cost of the loan. We use the EIA projection of gasoline prices in 2025 at the starting point for the analysis ($3.50/gallon), which is likely to be too low. We use the 3% discount rate. Thus, the actual real world benefits consumers are would enjoy are likely to substantially larger.

We find that for both cars and trucks in the 60-mpg standard scenario

- the savings on gasoline expenditures are higher than the increase in the auto loan payment, from the first month. That is, consumers will benefit from a positive cash flow from the date of purchase of the vehicle.
- By the end of the auto loan payment, the consumer will have saved almost $2,000 in the case of cars and over $2,000 in the case of trucks.
- By the 10th year, car owners are ahead $6,000 and truck owners are head $8,000.

The consumer pocketbook benefits of a 60-mpg standard represent a large gain in consumer welfare. They constitute the vast majority of the overall benefits of the standard and ensure that the standards pass a national cost-benefit test with flying colors. Simply put, a 60-mepg standard makes consumers and the nation better off.

TECHNOLOGY OF A 60-MPG STANDARD FOR 2025

Our confidence that consumers will realize benefits of this magnitude, if not greater, is reinforced by the advance of technology and the explosion of competition for greater fuel economy.

The increase in competition in the electric vehicles product space is striking. There are now or will soon be

- four different approaches to electric powertrains (hybrid, plug-in, hybrid plug-in, and extended range EVs)
- offered across the full range of vehicles driven by American consumers (compact, mid-size family sedans, large cars, SUVs, Pickups),
- by half a dozen mass market oriented automakers including Toyota, GM, Nissan, Ford, Honda, Mitsubishi, as well as new entrants and niche market oriented producers like Tesla, Fisher, and Coda.

This much activity is a sure sign that a great deal of progress has been made and, with competition breaking out in a new product space, the current crop of vehicles is only the beginning.

These electric vehicles will have to compete with rapidly improving internal combustion engines powered by gasoline, which will continue to be the primary energy source consumed in the vehicle markets. Gasoline powered vehicles are already rivaling the mileage of some hybrids, with lots of room for even greater technological improvement in

- engine combustion efficiency, transmissions, vehicle body design, rolling resistance and materials.

Thus, consumers can expect lots of choices and declining prices as these technologies penetrate the market.

THE TOOLS TO REDUCE GASOLINE CONSUMPTION

The prospects for a fundamental change in the trajectory of U.S. gasoline consumption are better today than they have ever been, and not only because gas prices are so high. Consider:

In 2007, Congress passed the Energy Independence and Security Act (EISA), breathing life back into the Corporate Average Fuel Economy Standards (CAFE) program administered by the National Highway Traffic Safety Administration (NHTSA) in two ways:

- By setting different standards for cars and trucks (based on the attributes of the vehicle) the standards are technology-neutral and precompetitive. The approach ensures that consumers have the full range of choice of vehicle they have always enjoyed, while automakers the incentive to compete on fuel economy for specific vehicle types.
- By establishing a minimum target for 2020 of 35 miles-per-gallon, the legislation ensured that progress would be made after decades of stagnation.

Fifteen states and the District of Columbia, representing almost one third of the U.S. population, adopted the Clean Cars program that has

- stimulated the development of electric vehicles and
- pushed the Federal standard to greater improvement in fuel economy.

The Administration accelerated the rate of progress substantially and improved the institutional framework for future standard setting in several ways:

- Coordinated action by federal and state agencies to come out with new rules.
- Adopted a standard of 35 miles-per-gallon by 2016.
- Published an economic and technical analysis by EPA and NHTSA that shows a fleet-wide 62 mpg standard is a technologically achievable and economically beneficial target for 2025, and both Toyota and General Motors have said they can achieve the standard.
- Proposed a long-term view for the first time ever. Setting a high standard for the next fifteen years (after 2016), as the Administration has suggested, is an important advance. It fosters and supports a long-term perspective for automakers and the public. It reduces the marketplace risk of investing in new technologies and gives the automakers time to re-orient their thinking and retool their plants. It gives the automakers the time and incentive to educate the public about fuel economy.

Ever since the first Arab oil embargo of 1973, it has been clear that the U.S. must reduce its consumption of oil for economic, national security, and environmental reasons. Seven Presidents have talked about this urgent need. Indeed, the need is so compelling that even President Bush, an oil man from Texas, declared that we must end our oil addiction in his 2006 State of the Union address. An urgent need, public support, positive economics, advancing technology, and improved public policy tools add up to the best chance we have had in decades to change the trajectory of U.S. gasoline consumption, lowering consumption, households spending on gasoline and our dependence on Mid-East oil. A dramatic increase in fuel economy must be at the heart of any "American Energy Initiative."

Mr. WHITFIELD. Thank you, Dr. Cooper.

Mr. Adams, you are recognized for 5 minutes.

STATEMENT OF JAMES L. ADAMS

Mr. ADAMS. Good morning, Mr. Chairman, and members of the subcommittee.

I am Jim Adams, and I represent the Offshore Marine Service Association, OMSA. OMSA speaks for 250 companies, including 100 firms that own and operate Marine vessels in the Gulf of Mexico. Our vessels connect America with its offshore resources, transporting every employee, every pipe, every wrench, every computer, barrel of fuel, every gallon of drinking water to the offshore rigs and platforms.

After the Macondo tragedy in April of last year, Secretary Salazar infamously proclaimed that he would keep his boot on the neck of BP. We quickly learned that his intention was to keep his boot on the neck of every business owner and worker engaged in the offshore oil and gas industry. With the full support of the White House, he has ruthlessly shut down our industry. Drilling rigs sit idle. Offshore supply vessels are moored at the dock, and layoffs mount.

President Obama and Secretary Salazar say they support domestic oil and gas development in this country. However, for the past 11 months the administration's moratorium has eliminated jobs and continues to export them to foreign countries.

Some have suggested that this is a partisan issue. But Democrats and Republicans alike have called for an immediate end to the mistreatment of our industry. Former President Bill Clinton, Senator Mary Landrieu, Senator Mark Begich, Congressman Gene Green of this committee called for the administration stand down. Before the Macondo incident, my members operated 1,200 vessels that serviced 33 deepwater rigs and 50 shallow-water rigs and almost 4,000 fixed platforms in operation in the Gulf of Mexico. Our vessels collectively provided $4.6 billion annually in wages and represent an investment in offshore companies of over $18 billion in vessels and equipment. Our vessels and shipyards that build and repair our vessels had direct employment of over 30,000 employees; additionally, over 100,000 jobs are supported by the economic activities by our U.S. shipyards and offshore supply vessel operators. The Federal Government collected nearly $1.4 billion in taxes directly and indirectly in 2008 due to the operations of this segment of the oil and gas industry.

Like any market the number of employees and vessels engaged in the offshore service industry will expand and contract based upon customer demand. In this case, the Interior Department dictated that our customers activity in deepwater exploration would shrink from 33 rigs to none for 10 months and counting.

In the shallow-water sector, the administration reduced normal exploration activities by well over two-thirds from previous years. As a result, we are seeing industry-wide vessel utilization rates below 50 percent of the fleet's capacity, and employment reductions are over 25 percent, and they will rise very quickly. Business owners, who are struggling to make payroll to retain highly skilled employees for as long as possible, will be forced into making more lay-offs in the coming months.

Without exploration permits as the demand driver in our market, we will see further contraction. This resulting shameful decline in the American offshore industry and the permanent loss of a world class workforce will be a loss to this country's economy.

The de facto moratorium is responsible for exporting some of our most strategically valuable and technologically capable U.S. flag vessels and the U.S. jobs that go with them to foreign markets. To date, approximately 60 of these highest class vessels, with a value of over $1.5 billion, that employed over 1,100 hundred Americans have left the Gulf of Mexico for foreign markets. On these highly technical vessels, crew members enjoyed the highest compensation levels in our industry, with an average wage, an average wage, of our $75,000 per crew member.

Our skilled workforce is critical to the safe reactivation of deep-water drilling in the Gulf. And yet we are in jeopardy of losing those assets and the careers that go with them.

It is time for the blockade to end. President Obama's moratorium needs to end because it is killing jobs; it is raising the price of energy; and it is making our country more vulnerable to an unpredictable international political situation.

Mr. Chairman, thank you so much for this opportunity. I will be pleased to answer questions from you or any of the members of the subcommittee, and we desperately ask for your help to get us back to work.

[The prepared statement of Mr. Adams follows:]

James L. Adams
President and CEO
Offshore Marine Service Association (OMSA)

Energy & Power Subcommittee
Energy & Commerce Committee
United States House of Representatives

THE AMERICAN ENERGY INITIATIVE

March 17, 2011

Mr. Chairman and Members of the Subcommittee:

As the President and CEO of the Offshore Marine Service Association (OMSA), I am grateful for the opportunity to describe the devastating economic impact of the Obama Administration's calculated policies to inhibit oil and gas production in the Gulf of Mexico. OMSA represents more than 250 companies, including approximately 100 firms that own and operate marine service vessels in the Gulf of Mexico. These vessels connect America with its offshore energy resources, providing every pipe, wrench, computer, barrel of fuel, and gallon of drinking water to offshore rigs and platforms. When the industry is fully functioning, our members transport tens of thousands of workers to and from offshore facilities.

Mr. Chairman, let me begin by expressing the deep appreciation of my members for the attention that you and your Subcommittee have given to the dire situation facing our industry in the Gulf of Mexico. And, in particular, we want to acknowledge the heroic efforts of Congressmen Steve Scalise and Gene Green of this Subcommittee, both of whom have used every available opportunity to ensure that this industry's voice is being heard at the highest levels of our Federal government.

Mr. Chairman, after the Macondo tragedy in April of last year, Secretary of the Interior Ken Salazar famously proclaimed that he "would keep his boot on the neck of BP." We quickly learned that his real intention was to keep his boot on the neck of every business owner and worker engaged in the offshore oil and gas industry. With the full support and guidance of the White House, he has effectively and ruthlessly shut down our industry – an industry that is vital to the economic health of this country. Drilling rigs sit idle, offshore supply vessels are moored to the dock, and layoffs mount. President Obama and Secretary Salazar say that they support domestic oil and gas development in this country and even take credit for industry-record high production levels. But, in the industry we all know better and are astonished by the Administration's pretense that "all is well". For the past 11 months, jobs have been lost and companies' very survival is threatened because of the casual indifference of this Administration towards our industry and the families that depend on it. We are witnessing the systematic decapitalization of a strategic domestic industry.

We often ask ourselves – what will it take to turn this Administration around? What will it take for this Administration to let our people go back to work? Maybe unrest in North Africa and the Middle East will spur them to action. Or, maybe the specter of $4 per gallon gas at the pump will cause them to change course. Maybe another recession caused by a huge spike in energy costs will do the trick. Not likely. The Obama Administration's "solution" is to consider tapping the Strategic Petroleum Reserve and to investigate price gouging claims. I am certain that these measures will not reassure the thousands of hard-working Americans who have lost their jobs all across the Gulf Coast as a direct result of President Obama's policies. We must instead undertake a path of self-reliance and energy security that will reverse the job-killing, illegal and unjustified policies of this Administration and get the offshore oil and gas industry back to work in the Gulf of Mexico.

Mr. Chairman, some have suggested that this is a partisan issue. But, Democrats and Republicans alike have called for an immediate end to the belligerent treatment of our industry by this Administration. Former President Bill Clinton, Senator Mary Landrieu, Senator Mark Begich, and Congressman Gene Green, all proud Democrats, have called on this Administration to stand down. They understand, like many of their Democratic and Republican colleagues, that our industry is vital for the economic growth and stability of not only the region within we work, but our Nation. They understand that we cannot continue to rely so heavily on foreign sources for oil and gas – particularly in the face of the escalating turmoil in Libya and other oil-producing countries. They understand that our national security is put at risk when we dismantle an industry that forms the basis for much of America's security at home and abroad.

Before the Macondo incident, my members operated over 1,200 vessels that serviced the 33 deep water rigs, nearly 50 shallow water rigs, and almost 4,000 fixed platforms in operation in the Gulf of Mexico at that time. Those vessels collectively provide approximately $4.6 billion annually in wages, and represent an investment by the offshore service industry of over $18 billion. Those vessels and the shipyards that build and repair these vessels had direct employment of at least 29,000 workers. Additionally, over 100,000 jobs are supported by the economic activities of these U.S. shipbuilders and offshore vessel operators with an average salary of almost $44,000 plus benefits. The Federal government collected nearly $1.4 billion annually in taxes directly and indirectly in 2008 due to the operations of this segment of the oil and gas industry. With the massive reduction in vessel and shipyard revenue and employment, these tax payments will certainly be reduced for 2010.

We were preparing to build even more vessels and hire more crew members as projections indicated that as many as 45 deepwater drilling rigs were projected to be in operation in the Gulf of Mexico by the end of 2011. However, and as we are all aware, in an unprecedented step, this Administration issued in May of last year a drilling moratorium bringing to an immediate halt all shallow and deep water drilling activities in the Gulf. Afterwards, the Administration, with great fanfare, told the public that the shallow water moratorium was 'lifted' after 30 days. It subsequently announced in October that the deepwater moratorium was also 'rescinded'. Based upon the actions of this Administration, does anyone truthfully think that these pronouncements by this Administration were designed to lead to a renewal of drilling activity in the Gulf? Not likely. In fact, in direct contradiction to its numerous assurances to the public, this Administration simply imposed a *de facto* drilling moratorium that keeps the companies of the industry rolled in red tape and drilling activity at a virtual standstill.

Like any market, the number of vessels and employees engaged in the offshore service industry will expand or contract based upon customer demands. In this case, the Department of Interior dictated that our customers' activities in the deepwater exploration sector should shrink from 33 rigs to none for ten months. In the shallow water sector, the Administration reduced normal exploration activities by over two-thirds. As a result, we are seeing industry-wide vessel utilization rates that are at or below 50% of the industry's capacity and that are accompanied by current employment reductions of 25%. It is important to point out that while employment reductions have trailed vessel utilization rates, this ratio will not last. Business owners who are struggling to retain highly-skilled employees for as long as possible will be forced into making more layoffs in the coming months. Without exploration permits, the market will further contract, thus resulting in the shameful decapitalization of the American offshore industry and the permanent loss of a world-class workforce.

The moratorium is already responsible for exporting some of our most expensive and technologically capable U.S.-flag vessels to serve in foreign markets. To date, approximately 60 of those vessels valued at well over $1.5 billion and that employed over 1,100 American crew members have left the Gulf of Mexico. On the highly technical vessels, those crew members enjoyed the highest compensation levels in our service industry, averaging over $75,000 per crew member. These are the real workers that the Administration has in the past vowed to protect. They are critical to the reactivation of deepwater drilling in the Gulf, and they are in jeopardy of losing their careers.

The human toll on employees and their families who depend on this industry is enormous. These are the same families that struggled mightily to recover from the devastating Gulf hurricane season of 2005. Many were just getting back on their feet financially, only to be taken down again, but this time not by a natural disaster. This time it is by the Obama Administration's *de facto* drilling moratorium. The economics of this situation are pretty simple. When there are no drilling rigs operating in the Gulf, there is no work for our offshore service vessels that support them and there are no jobs for our crews. When no rigs are operating in the Gulf, the very existence of the offshore service sector is threatened.

Mr. Chairman, after having watched this horrible scenario unfold, several prominent members of OMSA brought suit in Federal court against Secretary Salazar seeking to set aside his destructive *de facto* drilling moratorium. Judge Martin Feldman, having carefully reviewed the facts and the law, promptly issued an injunction prohibiting the Administration from enforcing its moratorium. But, with his boot still firmly planted, Secretary Salazar defied the Judge's order and issued a second, virtually identical moratorium. This defiant act led Judge Feldman to find Secretary Salazar in contempt. Notwithstanding the Judge's orders, the *de facto* moratorium continues in full force and effect and Secretary Salazar is brazenly ignoring a Federal court order and very few drilling permits are being issued.

Mr. Chairman, production in the Gulf of Mexico is clearly trending downward. The futures markets and the prices at the pump do not reflect past production levels. They instead reflect on the likely future supplies from exploration and development activities occurring today. Energy Department estimates show that the average Gulf of Mexico production levels are now falling at a precipitous rate. The Administration has dictated through its actions that the Gulf will produce less oil and gas, and the market reacts to this fact. Pressure from Federal court orders and Congressional oversight to date has yielded some, but not enough, progress to restore drilling operations in the Gulf. The industry requires certainty in order to commit sufficient capital and other resources to drilling new wells and undertaking other offshore development.

So, Mr. Chairman, I am here to request that your Subcommittee and this Congress act immediately to get the Gulf of Mexico back to work. We urge you to move legislation at the earliest possible date that would streamline the drilling permit process and remove the ability of this Administration to frustrate the timely and appropriate issuance of drilling permits. We understand that additional safeguards need to be implemented in the wake of last year's disaster. But, a complete shut down of the process is unconscionable and unacceptable. We therefore believe that legislation is desperately needed to open up that process and get our vessels and our people back to work. Our members and others in this industry would be pleased to work with you and the Subcommittee on this important initiative.

Mr. Chairman, it is time for the blockade of the American oil and gas industry to stop. We are an integral part of an industry that creates millions of good-paying jobs for hard-working Americans. We provide reliable and affordable energy supplies. We generate billions of dollars in tax revenue for Federal, state and local governments. And, at the same time, we enhance the national security of this country by reducing our dependence on unreliable and often unfriendly foreign sources of oil. We are ready with drilling rigs, vessels, and highly skilled personnel to restore high levels of oil and gas production in the Gulf of Mexico – and to do it safely and efficiently. President Obama's moratorium needs to end because it is killing jobs, raising the price of energy and making our country vulnerable to unpredictable international political forces.

Mr. Chairman, thank you for inviting me to appear before your Subcommittee today. I will be pleased to answer any questions that you or members of the Subcommittee may have.

Mr. WHITFIELD. Thank you very much, Mr. Adams.
And Mr. Daniels, you are recognized for 5 minutes.

STATEMENT OF RIP DANIELS

Mr. DANIELS. Yes, Chairman Whitfield and Ranking Member Rush and subcommittee members, appreciate it.

I am a capital list, I have been in business on the Mississippi Gulf Coast since Jimmy Carter was President, and that has taken some doing, too, trust me.

But I must tell you upon being so, it is more than obvious to me that it seems as though since April, 20th we have forgotten the number of jobs that the coast and Mississippi produced as a result of tourism, close to a million. And just from a backyard businessman's point of view, trading a multibillion dollar tourism and seafood industry for a multimillion dollar whale is not good business.

It is not a matter of the fact that we shouldn't have deepwater drilling; I think it is appropriate. What we are discussing here is how can it do so without jeopardizing the business, small businesses, along the coastline. I think that is doable.

First and foremost, there must be some ecological impact—the ecological impact studies should be based upon not only marine life but the adverse effect it would have on small businesses along the coast if there is a spill. Seems as though we have had some kind of selective amnesia as to what transpired and what resulted and why it was so important that President Barack Obama imposed the moratorium.

Let me tell you why and what happened. The explosion happened April 20th. The 25th, there were robots to have a blowout; it didn't work. May 2nd started the drilling relief valves. May 7th, there was an attempt to put on a hat, 100-ton hat. It didn't work, and on and on. And then they inserted the tube around May 14th. Top kill started on the 26th; it didn't work. And June the 4th, there was an attempt to cap the valves. June 25th there was Hurricane Alex.

As I sat watching what is happening in Japan, it is also about energy, but it is about something else. It is about the mere fact that we don't do business in a vacuum. And sometimes Mother Nature doesn't cooperate. From the time April 20th started with the explosion, there were some five tropical storms and three hurricanes. We on the Gulf Coast were cheering the fact that there was no more drilling—exploratory drilling, especially no leaks, because there was no guarantee there was a way to stop it. It made good sense to have a moratorium at that time, and it made good sense now.

The reality is this: I think that there should be deepwater drilling, without a doubt. However, the first responsibility for us in business is not to do business at the peril of those citizens who are our customers. I am a customer. I am not an experiment. Right now as we speak, over the last 3 months, there have been over 60 dolphin washed up; half of them, half of them were calves, stillborns. Right now, they are being explored. NOAA called this an unusual mortality event. Moby Solangi, who is the director of the Institute of Marine Mammal Studies in Gulfport, said this, "When we see something strange like this happen to large groups of dolphin, which are at the top of the food chain, it tells us the rest of the food chain is affected."

Now trust me on this, I am going to eat my seafood; I eat it everyday. I am going to it primarily because it is going to be my specimen that is going to determine whether or not there was an effect. I don't recommend it for pregnant women, and I don't recommend it for my children right now. Keep in mind, ladies and gentlemen, there is a reason for why at the top of the list of inalienable rights was life. Because without life, there would be no reason for liberty and the pursuit of happiness.

And what we are talking about right here is whether or not on the Mississippi Gulf Coast, there will be. There are still tar balls washing up. I went deep sea fishing and caught Blacktip shark and about 75 Spanish mackerel. What was strange about that was that there were men with HAZMAT suits on Ship Island, the Federal island. That was a little bit odd. We still get tar balls washing up. And all of us, all of us on the coast are a little bit apprehensive as to whether or not there will be another storm and our beaches will be black.

This is new science, but at the very least, the industry, be it my industry or the oil industry, has to make priorities as it applies to life. That has to come first in our quest to pursue happiness. Because without life, there is no reason for the other two inalienable rights. Thank you.

[The prepared statement of Mr. Daniels follows:]

Mr. Rip Daniels **1**
CEO/Manager WJZD-FM
Vice President, Mississippi
Gulf Coast Tourism Commission
The American Energy Initiative – March 17, 2011
Subcommittee on Energy and Power

It is indeed an honor to be invited again to testify before the Congressional Subcommittee on Energy and Power.

Although my testimony would be only as a private citizen of the Mississippi Gulf Coast, my experiences as a lifelong resident, hotelier, and Vice-President of the Tourism Commission, affords me the ability to provide a realistic view of the environmental, economic, and psychological impact of the April 20, 2010 BP oil explosion.

On July 27, 2010 , I testified to this committee that the impact of the BP oil disaster on tourism "has been and will be devastating" but "the devastation is difficult to measure because both the actual and perception of damage cannot be readily measured." That is still my position.

A multi-million dollar well ruining a multi-billion dollar tourism and seafood industry is not a good exchange. According to recent Harrison County surveys, the primary reason for visits to the Gulf Coast is the seafood.

The coastal view is still gorgeous, beaches are clean, the sound and bayous are open for fishing, but is the seafood safe long term? Dr. Robert Dickey of the FDA's Center for Food Safety and Applied Nutrition said yes. FDA testing shows PAH levels are 100-1000 times below levels of concern. And dispersant is also not detected or below levels of concern. But does that remove the perception that the seafood is not safe? And why are visitors constantly asking "Did this come from the Gulf? Is it safe?"

Coastians are apprehensive about the thought that merely high tides can result in a plethora of tar balls from the gulf floor because oil and tar balls are still washing up on beaches and barrier islands. Even more ominous, the National Oceanic and Atmospheric Administration (NOAA) declared that 60+ dolphins found washed ashore between the Alabama, Mississippi, and Louisiana over the last three months was " an unusual mortality event"[Reuters]. Alarmingly, about one-half of the dolphins were newborn or stillborn calves. Just imagine how many dead calves did not wash up but were lost at sea or eaten. It's calving season and this many dead dolphins is twelve times the number normally found. Moby Solangi, Director of the Institute of Marine Mammal Studies in Gulfport, MS said " When we see something strange like this happen to a large group of dolphins, which are at the top of the food chain, it tells us the rest of the food chain is affected.". By the way, the results from an examination by the government's Oil Spill Damage Assessment of the 89 dead adult dolphins that washed ashore after the 2010 oil explosion, have not been released. Why? Ladies and gentlemen, dolphins are air breathing mammals and so is man.

Is the seafood safe for human consumption? I don't know. I would not advise women who are pregnant to eat it, but I eat Gulf seafood because I know that years from now, scientists will need to evaluate before and after data so that they may more precisely determine the actual impact of the result of human consumption of the seafood. So we Gulf Coastians, reluctantly participate in the experiment.

BUT, big oil, we are not your guinea pigs, we are your customers and you should treat us as such.

BP, what are you willing to risk for the sake of profit? Our lives and the lives of our children?

Which brings me to the economic impact and my prediction that there would be a perception that the Coast has economically recovered. Yes, hotel and casino revenues are up and inquires are up, but the local seafood industry is dismal. Charter boat business is slow, oyster reefs are barren, and shrimpers are pessimistic about the brown shrimp season. Of course, many filed claims with BP, and to add insult to injury, many of those claims were either denied or are being leveraged for the BP release of liability agreements.

Although BP spent 15 million in six months on Mississippi tourism marketing to quell some of the misconceptions, please keep in mind that it only took 2.5 million to promote the Coast for a banner year before the oil spill. Therefore, it seems that in order to maintain current levels of revenues, BP should commit to the 15 million dollars per six months until the perception is removed.

Whether we like it or not, the Coast will have the dubious designation of being the location of America's worst oil spill to date.

What the Mississippi Gulf Coast tourism industry needs now is reassurance and the oil companies can do that by providing the following:

1. The ecological impact must be the first consideration when considering where to drill.
2. The pre-existing economical impact should also be considered first, i.e., the multibillion dollar seafood and tourist industry should not be jeopardized for the sake of the multimillion dollar oil rig.
3. The federal government must reassure Coastians and the world that the seafood is safe by providing an army of scientists to monitor deep water and shallow water marine life indefinitely.
4. There must be a long-term commitment to provide HAZMAT training and support so that local coastal municipalities can respond in mass if necessary.
5. Fresh water and the water table must be monitored with greater frequencies.
6. The government cannot allow deep water drilling or any drilling in areas where water currents and weather conditions make an oil spill impossible to contain and thus adversely affecting seafood and tourism industries.

Finally, all of the above is necessary because tourists must be reassured that the destination they're visiting is safe or they won't come. For tourism, the perception of a safe environment is just as important as the reality.

In conclusion, we Gulf Coastians understand that our tourism industry may take just as long to improve, but we must know that there is a long term commitment to assist in that recovery in both real damage and perceived damage.

IMMS Stranding Summary 2011 last updated March 16, 2011 at 9 am cst

The following information represents data collected by IMMS from marine mammal strandings in Mississippi and Alabama in 2011.

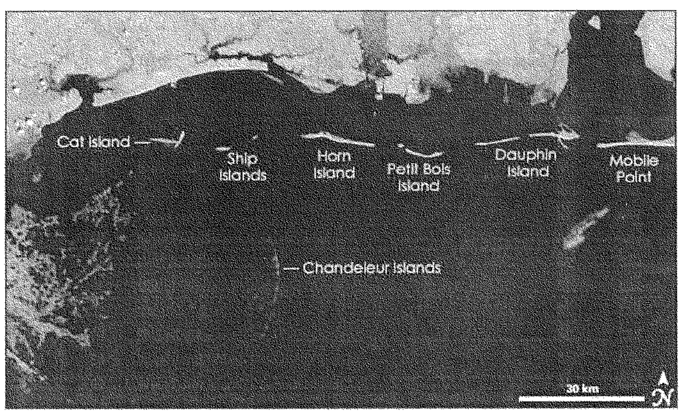
Life Stage Legend		Overview	
Calf =	shorter than 150 cm	Total dolphins found in MS and AL for 2011	62
Juvenile=	151 to 209 cm	Total calves found in MS and AL for 2011	45
Adult =	longer than 210 cm	Total calves found in MS	24
Unk=	Unknown	Total calves found in AL	21

Life stage classifications shown above are basic descriptions of bottlenose dolphin age classes in the northern Gulf of Mexico and may change when further information becomes available In addition, these classifications may differ from life stage classifications used in other geographic locations

Date	Number	General Location	State	Life Stage
1/3/2011	1	Ocean Springs	MS	Adult
1/4/2011	2	Cat Island	MS	Juvenile
1/15/2011	3	Dauphin Island	AL	Calf
1/17/2011	4	Dauphin Island	AL	Calf
1/28/2011	5	East Ship Island	MS	Adult
1/29/2011	6	Gulf Shores	AL	Calf
1/31/2011	7	West Point Island, Dauphin Island	AL	Calf
2/6/2011	8	Ship Island	MS	Calf
2/7/2011	9	Dauphin Island at end of Ponchartrain Court	AL	Calf
2/7/2011	10	West Point Island, Dauphin Island	AL	Calf
2/7/2011	11	West Point Island, Dauphin Island	AL	Calf
2/8/2011	12	West Point Island, Dauphin Island	AL	Juvenile
2/10/2011	13	Orange Beach	AL	Calf
2/13/2011	14	Sand Island (off Petit Bois)	MS	Adult
2/13/2011	15	Pascagoula	MS	Calf
2/14/2011	16	Pelican Island (off Dauphin Island)	AL	Calf
2/17/2011	17	Biloxi Beach	MS	Calf
2/18/2011	18	Horn Island	MS	Unk
2/18/2011	19	Horn Island	MS	Calf
2/18/2011	20	Gulf Shores	AL	Calf
2/20/2011	21	Dauphin Island	AL	Calf
2/20/2011	22	Biloxi	MS	Calf
2/21/2011	23	Gulfport	MS	Calf
2/21/2011	24	Dauphin Island	AL	Calf
2/22/2011	25	Horn Island	MS	Calf
2/22/2011	26	Horn Island	MS	Calf
2/22/2011	27	Horn Island	MS	Calf
2/22/2011	28	Horn Island	MS	Calf
2/22/2011	29	Gulf Shores	AL	Calf
2/23/2011	30	Weeks Bay	AL	Calf
2/24/2011	31	Singing River Island	MS	Juvenile
2/24/2011	32	Dauphin Island	AL	Calf
2/25/2011	33	Pascagoula	MS	Calf
2/25/2011	34	Long Beach	MS	Calf
2/25/2011	35	Dauphin Island	AL	Calf

IMMS Stranding Summary 2011 last updated March 16, 2011 at 9 am cst

2/25/2011	36	Horn Island	MS	Calf
2/25/2011	37	Horn Island	MS	Calf
2/26/2011	38	Cat Island	MS	Calf
2/27/2011	39	West Point Island, Dauphin Island	AL	Calf
2/27/2011	40	West Point Island, Dauphin Island	AL	Adult
2/27/2011	41	Mobile Bay	AL	Calf
2/27/2011	42	Gulfport	MS	Calf
2/28/2011	43	Gulfport	MS	Calf
2/28/2011	44	Pass Christian	MS	Calf
2/27/2011	45	Cat Island	MS	Adult
3/1/2011	46	Long Beach	MS	Calf
3/3/2011	47	Orange Beach	AL	Juvenile
3/3/2011	48	East Ship Island	MS	Calf
3/3/2011	49	East Ship Island	MS	Calf
3/4/2011	50	Pass Christian	MS	Juvenile
3/7/2011	51	Waveland	MS	Calf
3/5/2011	52	Cat Island	MS	Unk
3/10/2011	53	Pass Cristian	MS	Calf
3/12/2011	54	West Point Island, Dauphin Island	AL	Adult
3/11/2011	55	Petit Bois Island	MS	Unk
3/13/2011	56	Ocean Springs	MS	Juvenile
3/12/2011	57	Dauphin Island	AL	Calf
3/14/2011	58	Ship Island	MS	Calf
3/14/2011	59	Ship Island	MS	Unk
3/14/2011	60	West Point Island, Dauphin Island	AL	Calf
3/14/2011	61	West Point Island, Dauphin Island	AL	Calf
3/15/2011	62	Perdido Bay	AL	pending



Mr. WHITFIELD. Thank you, Mr. Daniels.

And Mr. Noe, you are recognized for 5 minutes.

STATEMENT OF JAMES W. NOE

Mr. NOE. Thank you.

As executive director of the Shallow Water Energy Security Collation and senior vice president general counsel and chief compliance officer of Hercules Offshore, I very much appreciate the opportunity to address the devastating economic impact of Obama administration's reckless oil and gas policies.

Mr. Chairman, the economic impact of the Obama administration's offshore oil and gas policies are direct, severe and long lasting. Over 400,000 jobs across the Gulf Coast alone are tied to the offshore energy business. Each one of our shallow-water rigs is a floating factory. These floating factories employ 500 highly skilled and well paid Americans, from the workers on the rig floor, to the welders, stock workers, supply boat captains, helicopter pilots, and equipment manufacturers and scores of others that support our industry. These jobs are at risk and for one simple reason: The Obama administration shutting down these floating factories rig by rig.

At a time when this Nation's economy is struggling to recover from one of the deepest recessions in our life time and unemployment rates remain high, this administration is irresponsibly putting policies in place that are destroying thousands of goodpaying jobs.

Mr. Chairman, this is no abstraction for me.

The extreme policies of the administration have claimed one of our coalition members, and I fear others might follow. Just a few weeks ago, the country's second-largest shallow-water drilling company, Seahawk Drilling, declared bankruptcy, eliminating a thousand good paying jobs. I personally know the pain that this caused because I was there. It was late in the day on Friday, February 11th, when I arrive at Seahawk's offices. As I was lead into a conference room, pensive employees got up from their desks, went to their doors and eyed me. I had the opportunity to look into the eyes and see the apprehension on their faces.

Once inside the conference room, I executed the necessary documents for Hercules to buy Seahawk's 20 rigs. As I left, I put my hand on a Seahawk executive's shoulder and saw in his eyes that he was fighting back the emotions of the day. He paused, took a deep breath and walked out of the conference room to inform the large gathering of Seahawk employees that the company was bankrupt.

The bankruptcy of Seahawk was avoidable. Seahawk had nothing to do with the Macondo blowout, but it was destroyed by the misguided and heartless policies of this administration. Members of this committee have joined with others in a bipartisan effort to implore the administration to change course. Even former President Clinton recently said that the administration's offshore drilling policies were ridiculous. And yet the administration persists in an ideologically driven mission to raise energy prices and to eliminate offshore oil and gas production and the many thousands of jobs that depend on it.

Mr. Chairman, immediately after the Macondo blowout last April, shallow-water drilling operations were halted for 30 days by the moratorium issued by Secretary Salazar. Yet after the moratorium was supposedly lifted, Interior refused to properly and regularly issue shallow-water drilling permits. Only 37 shallow-water permits have been approved in the 11 months since the disaster, when the normal historical rate has been 10 to 15 or even more per month. That constitutes an 85 percent reduction in the rate of monthly permit actions.

The Obama administration's policies are now coming home to roost. The ongoing turmoil in North Africa, the Middle East and the decreasing domestic oil and gas production have combined to cause dramatic spikes in the price of oil and gasoline. At gas stations across America, our fellow Americans are feeling the impact of the Administration's policy.

Mr. Chairman, the facts are clear, despite the repeated statements by the Obama administration, to the contrary, rigs are leaving the Gulf of Mexico and production is declining. Since May 2010 at least 12 offshore rigs have departed the Gulf of Mexico, 7 deepwater and 5 jack-up rigs, with at least 4 additional rigs currently under active consideration for departure. Once the equipment leaves the Gulf, it will be years, if ever, before the rig and the other vital equipment and skilled crew become available again for use in the Gulf of Mexico.

Production in the Gulf of Mexico has already declined. The Federal Government's own Energy Information Administration confirmed that the production in the Gulf declined by nearly 300,000 barrels per day since April 2010, and that domestic oil production will fall a full 13 percent in each of 2011 and 2012. This represents a loss of production of about 450 million barrels per day. That is $45 billion worth of oil that we will have to find somewhere else.

Mr. Chairman, we simply must reverse course. As a Nation, we need to reverse the decline quickly in order to reclaim control of our economic destiny and protect our national security. Thank you and for your committee for the recognition that the Gulf of Mexico and oil and gas supplies are critical to our national and economic security and your willingness to use all options at your disposal to compel this administration to reverse its dangerous energy policies.

[The prepared statement of Mr. Noe follows:]

James W. Noe
Executive Director
Shallow Water Energy Security Coalition

Senior Vice President, General Counsel and Chief Compliance Officer
Hercules Offshore, Inc.

President & Chief Executive Officer
Delta Towing, LLC

Energy & Power Subcommittee
Energy & Commerce Committee
United States House of Representatives

THE AMERICAN ENERGY INITIATIVE

March 17, 2011

Mr. Chairman and Members of the Committee:

As the Executive Director of the Shallow Water Energy Security Coalition ("Coalition"), and the Senior Vice President, General Counsel and Chief Compliance Officer for Hercules Offshore Inc. ("Hercules"), I appreciate the opportunity you have provided today to address the devastating economic impact of the Obama Administration's reckless offshore oil and gas drilling policies. Our Coalition comprises a group of companies that explore, develop and drill for natural gas and oil in the shallow waters of the Gulf of Mexico (see attached list of Coalition members).

Mr. Chairman, the economic impact of the Obama Administration's offshore oil and gas policies are direct, severe and long-lasting. Over 400,000 jobs across the Gulf Coast alone are tied to the offshore energy industry. Unfortunately, these jobs are at risk. They are at risk for one simple reason: this Administration wants to dismantle our industry, rig by rig, company by company, job by job. At a time when this Nation's economy is struggling to recover from one of the deepest recessions of our lifetime, and when the unemployment rate has been unacceptably high, this Administration has knowingly and irresponsibly put policies in place that have undermined thousands of good-paying jobs in the offshore oil and gas industry. Contrary to the rule of law and the fundamental principals of our country's form of government, the Administration has repeatedly ignored Federal court orders that struck down the Administration's job-killing policies and attempts to create new law by executive fiat. Members of this Committee have joined with numerous other Members of Congress in a bipartisan effort to implore this Administration to change course. Even former President Bill Clinton said last week that the Obama Administration's offshore drilling policies were "ridiculous". And, yet, this Administration persists on what appears to be an ideologically-driven mission to raise energy prices, and to eliminate offshore oil and gas production and the many thousands of jobs that depend on it.

Feeling It at the Pump

This Obama Administration's fixation on doing harm to the oil and gas sector is now coming home to roost. The ongoing turmoil in North Africa and the Middle East and the lack of domestic oil and gas production have combined to cause dramatic spikes in the price of oil. The price at the pump is now approaching $4.00 per gallon. At gas stations all across America, millions of our citizens are now feeling the impact of this Administration's policies. The prospects for a real and lasting economic recovery are seriously threatened by higher energy prices for every business and consumer. The solution is not to tap the Strategic Petroleum Reserve. The solution is to immediately resume domestic oil and gas production in the Gulf of Mexico.

Some fail to grasp the direct relationship between current drilling policy and current gasoline prices. We believe this failure reflects a fundamental misunderstanding of how gasoline prices come about. The component parts of gasoline – which include products derived from natural gas and crude petroleum - and gasoline itself - are in whole or in part traded on a spot market that sets its prices based on a number of factors. Uncertainties in North Africa and the Middle East, and the unexpectedly rapid economic recovery in China and India, are both major drivers, to be sure. However, the spot market is also influenced by factors best described as "anxiety" over the role of government in securing and encouraging domestic production. If the market believes that the Federal government does not stand ready to remove obstacles to production, or make matters even worse by creating more obstacles, the ability of the market to reduce gasoline prices even in the near term is greatly hampered. In short, the rising price at the pump is the market's indictment of the Administrations destructive oil and gas policies.

The Moratorium Continues

Mr. Chairman, immediately after the Macondo blowout last April, shallow water drilling operations were halted for 30 days by a drilling moratorium issued by Secretary of the Interior, Ken Salazar. Yet, after the moratorium was supposedly "lifted", the Department of the Interior ("DOI") refused to resume the prompt and regular issuance of shallow-water drilling permits. A *de facto* moratorium was put in place, effectively strangling oil and gas operations in the Gulf of Mexico for months. In fact, as of today, DOI has issued only a handful of permits for the drilling of new shallow water wells in the 11 months since the Macondo tragedy. Without those permits, our Coalition members cannot drill for new oil and gas and their employees cannot go back to work. Without those permits, the economic devastation across the Gulf Coast and in other states that support our industry will only get worse. Without those permits, our industry will cease to exist.

Administration Policies Drive a Driller into Bankruptcy: The Case of Seahawk

Mr. Chairman, this is no abstraction to me. The extreme policies of this Administration have already claimed one of our Coalition members and I fear that others might follow. Just a few weeks ago, on February 12th, the country's second largest shallow-water drilling company, Seahawk Drilling, Inc. ("Seahawk"), declared bankruptcy, eliminating 1,000 high-paying jobs it provided to men and women all across the Gulf Coast. I personally know the pain this caused because I was there. On February 11th, I walked out of my office in Houston and across the street to Seahawk's office to participate in an outcome effectively caused by the Obama Administration. Our company was agreeing to purchase the 20 shallow water rigs owned by Seahawk and pay off the funding Seahawk needed to wind itself down and go out of business.

It was already late in the day on that Friday when I arrived at Seahawk's offices. Many of the several hundred Seahawk employees were still in the office and had been told that an employee meeting would be held before they departed for the weekend. A group of 6 or 7 pensive employees were gathered at the front desk when I entered. As I walked through the halls, employees got up from their desks and came to their doors, eyeing me as I went towards the conference room. I had the opportunity to look into their eyes and see the apprehension on their faces over what they certainly knew must be coming. Once inside the conference room, I executed the required documents, and Seahawk was no more. As I left, I put my hand on a Seahawk executive's shoulder, and saw in his eyes that he was fighting back the emotions of the day. He paused, took a deep breath, and walked out of the conference room to inform the large gathering of Seahawk employees that the company was bankrupt.

Seahawk had become a victim of the slowdown in shallow water permitting orchestrated by this Administration. Seahawk had nothing to do with the Macondo blowout. The shallow water company did not even operate in deep water. But, it was destroyed by the misguided and heartless policies of this Administration. Mr. Chairman, the Seahawk bankruptcy was completely avoidable. With all of its rigs based in the Gulf of Mexico, Seahawk's very existence was dependent upon the regular issuance of drilling permits from DOI and its agency, the Bureau of Ocean Energy Management, Regulation, and Enforcement ("BOEM"). By perpetuating its *de facto* drilling moratorium, DOI and this Administration essentially put Seahawk out of business and its employees out of work. Hercules will do everything we can to save as many men and women from the personal indignity of the unemployment line. But we can't save everyone.

Final Permit Actions Continue to Be Grindingly Slow

Mr. Chairman, this time last year, the Shallow Water Energy Security Coalition did not even exist. But after the Macondo tragedy, our Coalition was formed to take all necessary steps to work with the Administration, Congress and others to address the concerns raised by that incident and to take whatever steps are necessary to get our industry back to work. The Coalition and its members have tried to work closely with the Administration to address safety and environmental concerns about offshore drilling operations, but have made little progress. The *de facto* drilling moratorium continues to stifle our industry and the associated national and economic security needs of our country.

Mr. Chairman, the Obama Administration, despite it many public assertions to the contrary, has worked tirelessly to shut down offshore oil and gas development activities in the United States. President Obama, as recently as last week, disingenuously expressed his support for the "need to continue to boost domestic production of oil and gas", and said that he is "encouraging offshore exploration and production." But, the evidence plainly shows otherwise. Only two deepwater drilling permits have been issued in the past 11 months, and even then, those permits were for the purpose of recommencing work at previously-approved drilling sites. For shallow water activities, only 37 new drilling permits have been approved by BOEM during the same time period, when the normal historical rate had been approximately 10-to-15 or more shallow water permits per month. This constitutes about an 85% reduction in the rate of monthly permit actions. With this significant drop in permit approvals, it is no wonder that Seahawk was forced into bankruptcy. I fear that other companies that depend upon a vibrant offshore energy industry may be close behind as they struggle on a day-by-day basis to stay afloat.

With newly-imposed, overly burdensome and confusing regulatory requirements mandated by BOEM, offshore development activity has ground to a virtual halt despite the exemplary safety record of the oil and gas industry. Since the beginning of offshore oil and gas development in the Gulf of Mexico, more than 46,000 wells have been safely drilled with only a total of approximately 15 barrels of oil spilled in the 15 years prior to April 2010 in well control events. Additionally, Bureau of Labor Statistics data confirms that the oil and gas industry has a strong record of safety – a record much safer than many other capital intensive manufacturing industries and most comparable to office jobs. Despite this safety record, the industry nevertheless worked closely with BOEM in a good faith effort to further improve safety measures and to restore drilling operations in the Gulf of Mexico. That effort was to no avail. I can assure you that the industry fully supports safety, but the governmental bureaucracy and delays imposed by the Administration continue to strangle offshore drilling.

Additional actions by the Administration to cancel offshore lease sales are making the domestic production situation even worse. A western Gulf of Mexico lease sale previously scheduled for August 2010 had already been cancelled, and expectations are that lease sales planned for March and August of this year may be postponed or cancelled as well. Should that occur, it will be the first year in over 45 years that the Federal government has not sold offshore leases for oil and gas production.

As Rigs Leave the Gulf or Are Idled, Jobs and Revenue Go With Them

The impact of the Obama Administration will be long-standing. Experienced personnel are now being relocated and drilling equipment is being redeployed or abandoned. At the time the moratorium was first imposed in May 2010, there were 25 floating rigs and 39 shallow water jackup rigs actively working on drilling operations in the Gulf of Mexico. By January of this year, only 8 floating rigs and 27 shallow water rigs were actively employed in Gulf drilling activity, a significant and precipitous reduction in domestic employment and energy development. Consequently, businesses are being forced to look for work outside of the United States, leading to a departure from the Gulf of Mexico of drilling rigs and highly-trained and experienced offshore workers. The offshore drilling business is a global marketplace. Since May 2010, at least 12 offshore rigs have departed the Gulf of Mexico – seven deepwater floating rigs and five shallow water jackup rigs – with at least four additional rigs currently under active consideration for deployment in other parts of the world. Once this equipment leaves the Gulf, it will be years, if ever, before the rigs and other vital equipment become available again for use in Gulf of Mexico. More importantly, our country will lose the highly-trained offshore personnel whose skills and experience are required for safe and secure offshore oil and gas development operations. In short, we are suffering from a significant and avoidable loss in domestic production capability, both for present and future generations of Americans. In recent months, other sophisticated and environmentally informed governments, such as the United Kingdom, Norway and Australia, have carefully examined the continued use of the same type of drilling equipment that we use in the Gulf of Mexico. Each of those countries concluded that the industry can drill safely and that they are better off securing their own energy and to reap for themselves the significant economic gains of a healthy oil and gas industry.

Mr. Chairman, hundreds of thousands of jobs in our industry are at stake. Each one of our offshore rigs operates essentially as a "floating factory", much like the landside factories that provide millions of jobs throughout America. According to a September 2010 study conducted by the Maguire Energy Institute at the Southern Methodist University School of Business, each shallow offshore rig employs approximately 100 workers, with 400 additional workers that directly or indirectly support the offshore drill rig operations. Those additional workers are employed by American shipyards, offshore supply boat companies, equipment manufacturers, food suppliers, and a wide range of other service companies. In other words, it is not just the thousands of hardworking men and women directly employed in the oil and gas industry who rely on offshore operations, but it is also the welders, fabricators, equipment manufacturers, longshoremen, helicopter pilots, truck drivers, restaurant owners, supply boat captains and scores of others all across the Nation who support offshore energy exploration. The Administration's actions are shutting down these floating factories and the employment opportunities that go with them.

When you widen this analysis to all direct impacts at risk in the Gulf, as the respected consulting firm PFC Energy ("PFC") did just last month, the numbers are staggering. PFC estimates the direct annual economic impact of oil and gas exploration and production in the Gulf of Mexico at $43 billion. Other sources show that the entire oil and gas sector writ large is responsible for over 2 million direct jobs and over 7 million indirect jobs in the United States.

Additionally, significant Federal, state and local tax revenues will dramatically decline as a result of the Administration's *de facto* drilling moratorium. In Louisiana alone, offshore energy exploration and production accounts for 60 percent of the tax base in some parishes. Of course, these revenue shortfalls come at the very time most states and localities are strapped for revenues that fund essential services like schools, hospitals, and outreach for the elderly and those living in poverty.

As for the Federal government, we need not remind the Committee that the national debt is staggering. After income tax collection, the next highest source of revenue to the Federal government comes from rent, royalty payments, and bonus payments related to offshore oil and gas development. Since 1982, almost $200 billion has flowed to federal coffers from these sources. We can ill-afford to sideline these revenues based on the poorly conceived permitting policy in the Gulf.

We all know that our industry has a significant economic impact on the Gulf Coast. But, many do not realize that the shallow water industry alone also has a huge economic benefit elsewhere in the country. A recent survey of just a handful of oil and gas companies found that the industry expended approximately $1.8 billion in states outside of Texas and Louisiana between 2008-and-2010. Of that amount, approximately $1.3 billion was spent in seven states -- Illinois, Pennsylvania, Wisconsin, New York, California, Oklahoma and Alabama. Of those states, the President's home state of Illinois was the largest beneficiary, with approximately $376 million spent in that state alone by our industry over the three-year period of the study. In fact, every one of our shallow water rigs has multiple engines on board, most of which were manufactured by Caterpillar in Illinois. We buy each of our several thousand employees two pairs of steel toed boots each year – made in Redwing, Minnesota. In short, this is a national economic calamity for scores of seemingly unrelated industries dependent on the oil and gas industry.

Energy Security Is National Security

There is a direct relationship between our ability to effectively develop resources in the Gulf and the energy security of the United States. PFC wrote in February that, "The Gulf of Mexico is one of the world's great hydrocarbon basins and a major contributor to US energy security...Optimal development requires constant activity, new capital investment and the participation of a set of large and small companies with different capabilities and strategies." Oil from the Gulf displaces oil from less secure foreign sources of supply. Gas from the Gulf does so too, and also forms part of the resource base that may displace some conventional motor fuels in the future – either in clean-burning natural gas vehicles or as a clean power source to generate electricity for future generations of American cars.

But energy security is national security. The recent problems in North Africa and the Middle East should remind us all how foreign dependency distorts policy priorities. Dr. Ariel Cohen of the Heritage Foundation's international studies program testified before Congress that "dependence of the U.S. [on foreign sources of supply] can have dire consequences for the economic well-being of the United States, our national security, and the American way of life."

Current Administration policy simply is not addressing the major security threat. Despite major and growing unrest in North Africa and the Middle East, our policy in the Gulf pushes us further in the direction of dependence on foreign sources at a cost to our economy of some $1 billion a day in the purchase of foreign oil. We rather produce in their Gulf rather than our Gulf. Indeed, major competitors whose strategic interests frequently differ from our own, such as China, understand the United States resource base even when we do not. That is why China is seeking to purchase coal from West Coast ports, buying up oil sands bitumen in Canada otherwise destined for United States markets, and has even purchased rights over secure natural gas fields in a 800,000 acre swath of land from the Mexican border to San Antonio and from Wyoming and Colorado to Nebraska and Kansas.

We simply must reverse course, and it begins in the Gulf.

Conclusion: Put the Gulf Back to Work

Despite the serious impacts of the *de facto* moratorium on shallow and deepwater drilling, the Administration still continues to deny the reality of the adverse consequences of its policies. Secretary Salazar asserted recently that Gulf of Mexico "production has remained at an all time high and we expect that it will continue as we bring new production online." Even the President in his press conference last week repeated the same unsubstantiated and misleading claim. Nothing could be further from the truth. Data from the Administration's U.S. Energy Information Administration confirms that production in the Gulf has declined by nearly 300,000 barrels per day since April 2010 and that domestic oil production will fall by a full 13% in 2011. As a Nation, we need to reverse that decline quickly in order to reclaim control of our economic destiny and protect our national security.

The essence of our law and policy in the Gulf of Mexico is to balance the development of oil and gas resources with reasonable environmental considerations. Section 1332 of the Outer Continental Shelf Lands Act makes clear that the Gulf and other parts of the Outer Continental Shelf are to be considered "a vital national resource reserve held by the Federal Government for the public, which should be made available for expeditious and orderly development, subject to environmental safeguards". While the Administration has clearly taken its environmental mission seriously, and while the structure of the regulatory agency has now been reformed, the Administration has ignored utterly its primary obligation under the law – the expeditious and orderly development of oil and gas. At best, it has been slow and somewhat chaotic. It is well past time for the federal government to take its statutory obligations seriously, and to put the Gulf back to work.

The real world consequences of its extreme *de facto* moratorium are now clear:

- The Administration has ignored multiple Federal court orders and is acting as if it is above the law.
- Thousands of jobs are being lost in an already weakened economy.
- A self-inflicted threat has been created to our national and economic security at a time when foreign oil supplies are less than dependable.
- The export of U.S. jobs and equipment will adversely affect tax revenues to the Federal and state governments, most of which are already facing fiscal difficulties.

Mr. Chairman, offshore exploration provides affordable energy for all Americans and supports jobs in every corner of America. We must not let this industry die. We must not let this Administration succeed in its efforts to dismantle this industry.

Mr. Chairman, I want to thank you and your Committee for the recognition that Gulf of Mexico oil and gas supplies are critical to our national and economic security, and for your willingness to use all options at your disposal to compel this Administration to reverse its dangerous energy policies. We just want to go back to work doing what we do best – safely and responsibly producing oil and gas for the American people.

Thank you for allowing me to appear before you today.

# # # # #

Membership

Shallow Water Energy Security Coalition

Apache Corporation	Hall-Houston Exploration
Arena Offshore	Helis Oil and Gas
Chevron	Hercules Offshore
Delta Towing	Phoenix Exploration
Dynamic Offshore Resources	Rowan Companies
Energy XXI	W&T Offshore
Ensco	Walter Oil & Gas

Mr. WHITFIELD. Thank you, Mr. Noe.

Mr. Massey, you are recognized for 5 minutes.

STATEMENT OF MARTIN W. MASSEY

Mr. MASSEY. Chairman Whitfield, Ranking Member Rush, members of the committee, it is a privilege to join you today. Let me begin by introducing myself.

For three decades I have served in the oil and gas industry for Exxon Mobil Corporation, during which time operating safely has been a top concern of mine as it has been for my colleagues.

I was born and raised in Louisiana. I graduated from LSU with a degree in petroleum engineering. And my first job for the company was as a drilling engineer in the Gulf of Mexico. I am currently seconded from Exxon Mobil to the Marine Well Containment Company as its chief executive officer.

I am grateful for the opportunity to discuss the new marine well containment system that our members have developed to safeguard the Gulf of Mexico. In the event of a deepwater well-control incident, I am glad to report that the interim system was completed last month, and it is now available for deployment if it is required.

First, let me briefly summarize the evolution of this system. The global energy industry has successfully drilled more than 14,000 deepwater wells. But after the tragic chain of events from the Macondo blowout, it was clear that the industry could improve our preparedness to respond if an operator lost control and subsequent containment of a well.

So, on July 21st, four of the largest energy companies operating in the Gulf of Mexico, Exxon Mobil, Chevron, ConocoPhillips and Shell, announced that they would design and build a containment system for the Gulf. They would form an independent, not-for-profit organization that would own, operate and maintain the system. BP recently joined us and helped establish the interim containment system. I am pleased to say that Apache has now joined us as well. Just before coming to Washington yesterday Anadarko became the next member of our company.

These companies have done what they set out to do. The interim system is ready to go. The Gulf of Mexico is now safeguarded by being able to respond in the event an operator loses complete control and then subsequent containment of a well. One of the system's most critical components is its capping stack. That is a piece of equipment that can shut in the oil flow or, if necessary, we can divert the oil flow up to vessels that are on the water surface. This capping stack can handle up to 15,000 pounds per square inch, more than the pressure of the Macondo well.

Today the interim system we have in place has processing and storage capacity of 60,000 barrels a day and can operate in 8,000 feet. That is 3,000 feet deeper than Macondo. We are not stopping there. These capacities will be further expanded next year. With these additional capacities, we will be able to handle up to 100,000 barrels a day and operate in 10,000 feet of water.

In short, this system significantly improves upon previous Gulf of Mexico response capabilities. We now have ready access to the equipment and the resources that we need to cap or contain a well. A few weeks ago, we had the opportunity to demonstrate to Secretary Salazar and Director Bromwich the system's capabilities. The marine well containment system, the interim system, has been accepted for use in permit applications. As a result, our members have submitted new applications that we are allowing this system if it is required. We are hopeful that this will now facilitate the approval of deepwater drilling permits.

The energy resources of the Gulf are critically important. They account for 30 percent of the U.S. oil and gas production and support more than 170,000 American jobs. As industry and governments work together to develop these resources, it is critical that we do so responsibly. In creating this new system, the Marine Well Containment Company worked closely with the Department of the Interior and with the Coast Guard, who, as you know, will control or lead the response to any offshore incidents.

We have great confidence in this system. It is ready. The marine well containment system meets the requirements of the regulation on containment, thus is it enables the men and women of the energy industry to get back to work to the Gulf of Mexico to produce our Nation's offshore energy resources. Thank you for your attention.

[The prepared statement of Mr. Massey follows:]

Martin W. Massey
Chief Executive Officer, Marine Well Containment Company
U.S. House Subcommittee on Energy and Power
March 17, 2011

Opening Statement

Good morning, ladies and gentlemen.

Chairman Whitfield, Ranking Member Rush, members of the committee, it is a privilege to join you today.

Let me begin by introducing myself. For three decades, I have served in the oil and natural gas industry with Exxon Mobil Corporation, during which time operating safely has always been a top concern of mine, as it has been for all of my colleagues. I was born and raised in Louisiana, and graduated from LSU with a degree in petroleum engineering. My first assignment was as a drilling engineer in the Gulf of Mexico.

Since then, I have worked in a variety of positions around the world, most recently as ExxonMobil's Joint Interest Manager in the United States. I am a member of the Society of Petroleum Engineers and serve on the LSU Petroleum Engineering Advisory Committee. I am currently seconded from ExxonMobil to the Marine Well Containment Company, where I serve as its Chief Executive Officer.

I am grateful for the opportunity to discuss the new Marine Well Containment System that our member companies have developed to safeguard the Gulf of Mexico in the event of a deepwater well-control incident. I am glad to report that the interim system was completed last month, as scheduled, and is available for deployment should it be required.

First, let me briefly summarize the evolution of this system. The global energy industry has successfully drilled more than 14,000 deepwater wells. But, after the tragic chain of events that began with the Macondo blowout on April 20 of last year, it was clear that the industry could improve its preparedness to respond in the event an operator lost complete control and subsequent containment of a well.

So on July 21, four of the largest energy companies operating in the Gulf of Mexico – ExxonMobil, Chevron, ConocoPhillips and Shell – announced that they would design and build a well containment system for the Gulf. They would form an independent, not-for-profit organization to own, operate and maintain the system. BP recently joined and helped to establish this interim containment system. And I am pleased to say that Apache has now also joined the Marine Well Containment Company.

These companies have done what they set out to do with the interim system.

The Gulf of Mexico is now safeguarded by being able to respond in the event an operator loses complete control and subsequent containment of a well.

One of its most critical components is its subsea capping stack – a piece of equipment that can shut in oil flow or, depending on conditions, divert it up to vessels waiting on the water's surface.

This capping stack can handle pressure up to 15,000 pounds per square inch - more than the pressure of the Macondo well.

Today, the interim system has storage and processing capacity of up to 60,000 barrels of fluid a day, and can operate in depths of up to 8,000 feet – 3,000 feet deeper than Macondo.

These capacities will be further expanded next year, when additional system capacity is added. At that time, it will be able to handle up to 100,000 barrels a day, at depths up to 10,000 feet.

In short, this system significantly improves upon previous U.S. Gulf of Mexico response capabilities. We now have ready access to the equipment and resources to cap or contain oil from a deepwater well-control incident.

A few weeks ago, we had the opportunity to demonstrate to Secretary Salazar and Director Bromwich the system's capabilities. The Marine Well Containment System has been accepted for use in permit applications submitted to the Interior Department's Bureau of Ocean Energy Management, Regulation and Enforcement. As a result, our members have submitted permit applications for new drillwells that will rely on this new system for well containment, if required. We are hopeful that this will facilitate the approval of deepwater drilling permits.

The energy resources of the Gulf are critically important to our country. They account for 30 percent of U.S. oil and gas production and support more than 170,000 American jobs.

As industry and governments work together to develop these vital resources, it is critical that we do so responsibly.

In creating this new system, the Marine Well Containment Company worked closely with the Department of Interior and with the Coast Guard, who would continue to lead the response to any offshore incidents.

We have great confidence in this new system. It is ready. The Marine Well Containment System meets the requirements of NTL No. 2010-N10 and thus enables the men and women of the energy industry to get back to work in the Gulf of Mexico to produce our nation's offshore energy resources.

Thank you for your attention.

Mr. WHITFIELD. Thank you, Mr. Massey.

And I will recognize myself for 5 minutes of questioning.

On this new containment system that has been developed by these four major companies, plus Apache, plus—is it Anadarko?

Mr. MASSEY. Anadarko.

Mr. WHITFIELD. Anadarko. You demonstrated this to Mr. Salazar and Mr. Bromwich—is that correct—and their staff?

Mr. MASSEY. Correct.

Mr. WHITFIELD. And when do you expect new permits would be issued, the application of which depends upon this containment system, do you have any idea?

Mr. MASSEY. Yes, as I mentioned, Secretary Salazar and Director Bromwich came. They actually visited the site where we have this capping stack, which is a critical piece of the equipment. And we had an opportunity discuss the system capabilities.

After that meeting, we were given the word that, yes, our system is accepted, and you can now use our system in your permit applications. So that was good news.

And now we have members of our company that have actually submitted permit applications that rely on our system. So they are actually in front of the BOEMRE ready for approval now. I am hopeful that in just a matter of days we are going to get approval of some of those permits.

Mr. WHITFIELD. That is encouraging because I guess we have only had two permits issued, and they were both for producing wells already so that is encouraging.

Mr. Pugliaresi, I wanted to ask you, in your testimony, you talked about anticipation and its impact on prices. Normally we think about just supply and demand on pricing. And would you elaborate just a little bit about how anticipation effects these oil prices or gasoline prices?

Mr. PUGLIARESI. Yes, I think the best case——

Mr. WHITFIELD. You might want to hit your microphone phone.

Mr. PUGLIARESI. The best case we have is actually in natural gas. We had a period of time with very high natural gas prices. And as the shale gas revolution began to move, even though there were periods of time when the prompt period—the initial gas in the prompt period wasn't growing that fast—the price began to decline rather rapidly because buyers and sellers are looking out, and they are saying, this is real, this is going happen over time. There is a good chance the government won't be able to stop this. It is very interesting. If you—I think one of the messages we want to leave you with is that you don't want to foreclose really positive outcomes. And if we sort of fix ourselves on this view that we know how much oil and gas is out there, we know what is going to happen in the future and so we don't need to do X or Y, that is usually a mistake. We need to open the system up as much as possible so we can get as much different approaches to developing these oil and gas resources.

Mr. WHITFIELD. Do any of you have any thoughts of whether or not gasoline would reach $5 a gallon by the summer? OK, it would be a guess.

Dr. Cooper, what do you say?

Mr. COOPER. Well, I stay away from predicting gasoline prices in part because gasoline markets are afflicted by two sets of factors that have nothing to do with economics.

Mr. WHITFIELD. OK. Well, you can't answer my question, so thank you. I appreciate it.

Mr. COOPER. It is a risky businesses predicting $5 a gallon.

Mr. WHITFIELD. Mr. Massey, you had indicated in this business of drilling in the Gulf, there are about 170,000 employees; is that correct?

Mr. MASSEY. Yes. We have, from third-party sources and so forth, that they tallied up the number of jobs. I am talking about direct jobs.

Mr. WHITFIELD. Direct, but not indirect.

Mr. MASSEY. Yes.

Mr. WHITFIELD. How many jobs were lost during this period over the last 8 or 9 months? Does anyone have any idea total in the industry?

Mr. DANIELS. In the tourism industry or the oil industry?

Mr. WHITFIELD. Well, I will get to the tourism in a minute. I was trying to get to the oil first, and then I would like to get to tourism.

Yes, Dr. Mason.

Mr. MASON. I will address the question generally and then briefly. But that is a very tricky question because of this problem that good business owners will try to keep their best employees around. They have done that out of their own pocket. When you try to count actual job losses, the number can be skewed in a way that can create misleading results.

Mr. WHITFIELD. OK. We know that Seahawk went bankrupt, and they had a thousand employees, correct?

Mr. NOE. Mr. Chairman, that is correct.

I think it is frustrating that the administration is using the fact that many companies, like Hercules, has acted as a good corporate citizen and kept employees on the payroll, despite the fact that we don't have jobs for them to do. And as you mentioned, the bankruptcy of Seahawk drilling, they had at their height about a thousand jobs. Hercules, once we close the transaction, will try to hire everybody we can. We can't hire everybody. We have even agreed to pay for all the employees who are laid off their health care benefits, even if we never hire them. So there are real jobs that have been lost.

But I think as Dr. Mason suggested, many companies have been treading water and have been waiting and waiting for the administration to act on their rhetoric. And they tell us that there is no moratorium, but we don't get permits. So it is like running an airline business; if you get a permit to fly from New York to Los Angeles and you don't know if you are going to get a permit to fly back, when you reach Los Angeles, do you lay the crew off, do you mothball the airplane? Those are the decisions that we have faced as an industry. Because we have been acting as a good corporate citizens, we have decided to keep our workers on a payroll, but at some point, it has to stop.

Mr. WHITFIELD. Thank you.

Mr. ADAMS. Mr. Chairman, in the vessel sector, what we saw was deferred pain. Our vessels were intentionally engaged in the response and clean-up operations through the late fall of last year. That meant that crews stayed busy on day-rate jobs. Those contracts ended, and there is no work to fill.

Mr. WHITFIELD. OK.

Mr. ADAMS. And so that is why we would suggest that the best efforts have been made to retain crews, but the ability to manage cash flow will have an end very shortly.

Mr. WHITFIELD. OK. My time has expired, but Mr. Daniel, if you have a number on the tourism side, I would be happy to hear it.

Mr. DANIELS. Yes, I do. All of the fishing fleet, all the shrimping fleet in Gulfport, all of those men lost their jobs. All of the fleet in Chalmette, Louisiana, and along the Louisiana line, all those men lost their jobs. Thanks to BP coming in and hiring them, it helped out a lot. But they all, every fisherman on the coast lost his job.

Mr. WHITFIELD. Thank you.

Mr. Rush is recognized for 5 minutes.

Mr. RUSH. Mr. Chairman, I thank you so much.

We have heard a lot today about the impact of the oil spill and the aftermath of the spill on the gas and oil industry. I think it should be well noted that Mr. Daniels is here, and you can speak to the economic costs of the oil spill to other industries on the Gulf Coast, including the tourism industry.

And I want to note that Mr. Daniels appeared before the EC Subcommittee in July of last year before the BP oil was capped and before the oil had stopped drilling—stopped flowing, rather, into the Gulf.

It goes without saying that the spill was devastating for tourism and the fishing industries. Along the Gulf Coast, fisheries and oyster bayers were closed. The fishing industry continued to suffer even after fishing resumed as many feared that Gulf seafood was tainted.

My question to Mr. Daniels, you kind of indicated that the seafood industry is recovering, but has it fully recovered from the oil spill? What is the status of it? Maybe it hasn't recovered at all.

Mr. DANIELS. Well, according to the FDA it has. There are beds where you can fish and you can shrimp. I put more trust in the shrimp and the fish to avoid the oil than I do in the government to say whether it is contaminated. Because shrimp and—not oysters—but shrimp and fish can avoid poison areas.

But I can tell you this, I eat a lot of seafood. Most of us eat seafood daily and that therein lies of lies the problem.

In the testimony that I submitted, I quoted the director of the FDA suggesting that both the Corexit, which is the dispersant, and oils, as evaluating some of the seafood, was at lower levels, which I can appreciate. So, consequently, we eat it, but yet we are still ending up with these dead dolphin.

And then I discovered the Federal Government, the FDA, the oil spill response has still yet not determined the deaths of the 89 dolphin that washed up right after the spill. They have not released that information. They did say it was as a result of environment over the last year, but they have not said why.

Under any other ordinary circumstances, Congressman, if in fact there were a dozen eggs that showed up in Illinois and Chicago, the FDA would evaluate where those eggs came from and then consequently pull in that lot from that manufacturer. In this case, we have the Gulf of Mexico.

The FDA samples are very, very few. And how do you sample? How do you sample the Gulf of Mexico? How do you say that this dolphin calf was stillborn as a result of Corexist or whatever, how do you say where it came from?

So the simple answer to that is we are eating a lot of seafood there. It is very, very delicious. We would like for you to come down and eat it. However, there is still that apprehension that should not be there. It wasn't there before April 20th. And my only suggestion to these men in the oil industry is that you have got to somehow or another say to the rest of us, your customers, that we won't put you in jeopardy, and that is basically my point on that.

Mr. RUSH. I appreciate that.

And that leads me to a question for Mr. Massey.

Mr. Massey, this containment, marine containment system, now, can you undeniably and categorically and absolutely say that this system would stop the flow of a subsea blowout like the one we saw last year? Is your system, this containment system, is this actually what we have all been looking for?

Mr. MASSEY. What I can say is that we have the system and we have the plan that has been developed to respond to a well if an operator loses control and then subsequent containment. So we have the plan, we have the equipment that is needed, and we have the resources and the people.

So we have identified the plan and how we would go about capping and containing a well. So, yes, I believe we do have the system, and we would be ready to respond if called upon.

Mr. RUSH. And Secretary Salazar has certified that this is, indeed, the case, that this system is the appropriate one that we have been looking for, that is the answer?

Mr. MASSEY. What I can tell you is Secretary Salazar and Director Bromwich did come visit us. They looked at the system capacities and what we are capable of doing, and we have gotten the word back that it is acceptable for us to use in permit applications. And we now have permits for deepwater wells that rely on our system. And we are hopeful that those are going to be approved any day now.

Mr. RUSH. Thank you, Mr. Chairman.

Mr. WHITFIELD. At this time, I recognize the gentleman from Oklahoma, Mr. Sullivan, for 5 minutes.

Mr. SULLIVAN. Thank you, Mr. Chairman.

And this is a down-the-line question to Mr. Pugliaresi—is that how you say your name—and Messrs. Noe, Adams, Massey and Mason, and I appreciate you being here today, too: With our Nation approaching $4 to $5 a gallon gasoline, what do you think is the main impediment to U.S. oil development both onshore and offshore? Do you think it is economics or Federal policies or regulations? If you could comment on that, please.

Mr. PUGLIARESI. Strictly Federal policy and regulations.

Mr. MASON. Strictly policy.

One thing I didn't cover in my oral testimony, was covered in my written was the history of the OCS development. If you will recall, we were ready to open that up just before Deepwater Horizon. Now that is completely off the table again. The Outer Continental Shelf is extremely important. We need to use all of our resources, of course use them wisely, but not rule any out just because of policy.

Thank you.

Mr. ADAMS. I believe it is the administration's political desire to strangle domestic exploration offshore.

Mr. NOE. I would agree with Mr. Adams as well. We have proven, as an industry, we started, as Americans, we invented the offshore drilling business in 1938. We have drilled nearly 50,000 wells safely in the Gulf of Mexico since Harry Truman was in the White House. We know how to operate safely.

And I will tell you that we have the will as an industry to produce oil and natural gas in the Gulf of Mexico. We have the means in which to do it safely.

But we don't have the will from the administration. And we have seen that throughout the summer. And the questions to Mr. Massey don't even pertain to the shallow-water operations. We don't utilize the subsea technology, but even our industry has been shut down this summer and have proven to have little traction on getting permits.

So what we need is a few things, Congressman. We need a transparent regulatory process. We need the administration to issue promptly and regularly and predictably new drilling permits. We as a country are the third largest oil producer in the world. Deep water alone, if it were a separate country, would be the fourth largest oil producer alone.

We have the resources available. We have the technology available. We have the manpower available. We just need the administration to promptly execute its statutory obligations to expeditiously develop the natural resources of our country.

Mr. SULLIVAN. I have a company in my district that is sitting out there idle right now. They have a rig, and they are in with a couple other companies, and they are paying up to $1 million a day and just sitting there. And they called the new organization—I forget what it is called. It used to be mineral management services, and I don't know what the new acronym is. But they say that they call them and they are doing everything they are telling them to do, but they can't even get phone calls returned. Are you hearing some of that? I am sure you have.

But also my main point is they said that this rig operator said if they can't pay them any more, they want to get out of the contract, that is fine; they already have a place to go off the coast of Africa. Let's say that gas prices go to $5 a gallon, which I think is possible due to this, and President Obama at that point thinks, wow, maybe we need to start doing something in the Gulf. Could we get those rigs back quickly and those gas prices go down quickly?

Mr. NOE. Congressman, that is a great question. Just yesterday, Transocean announced that it was entering into a 10-year contract for one of their deepwater drill ships in India. That rig will be tied up through 2020. As rigs leave the Gulf of Mexico, they typically go on long-term contracts years, 2, 3 years. So it will be very difficult to get those rigs back quickly.

But there is, I want to emphasize a point. There is a direct relationship between the issuance of permits and gasoline prices. As I think some of the other panelists have suggested, the market is driven—it is a spot market for natural gas and crude oil, and much of that market is driven by anxiety and the belief of the marketplace that the policies of our government will secure a stable supply of oil and natural gas.

And I think that the gasoline prices today are an indictment of this administration's policies on ensuring that we are going to have a safe and predictable secure source of domestic oil and gas.

Mr. SULLIVAN. Yes, sir, Dr. Mason.

Mr. MASON. Thank you.

I would just like to revise your hypothetical a little bit. I am thinking in a $5 a gallon scenario, it wouldn't open up drilling, but the administration would more likely view this as an opportunity to further subsidize electric vehicles and the batteries they contained.

In my closing comments, I made a point, there are other externalities being developed in what we call these clean technologies and batteries. We do not have a recycling program, a mandatory recycling program for these batteries, which contain huge amounts of heavy metals. In fact, some of the manufacturing plants in Michigan are based on one of the world's largest fresh water aquifers. Once those heavy metals leach into the aquifer, you are done. You can take it off line. You can never drink out of there again after you discover it through many cancers and stillborn babies and many other things. This is not carbon pollution, but it is a very real other form of pollution that is not being priced on electric vehicles.

I think it is irresponsible to leave new externalities, out there just like carbon was left out there, in developing these new technologies. We should price them as completely as possible while we develop those.

Mr. SULLIVAN. Thank you, Mr. Chairman.

Mr. WHITFIELD. We do have a vote on the House floor, two votes, but Mrs. Capps, I am going to recognize you for 5 minutes for your question period.

Mrs. CAPPS. Thank you, Mr. Chairman.

And thank you each of you, for our witnesses, for your testimony today. I am going to direct my questions to Dr. Cooper, in part because of your title, speaking up for consumers as research director for the Consumer Federation of America.

I want to ask you to talk a little bit about the consumer benefits of making our cars and trucks more efficient. United States imports a little more than half of the petroleum it uses. For years we have heard from our colleagues on the other side that we can drill our way to lower energy prices. And we have heard that again today.

But more drilling is never going to be enough to reduce global oil prices or U.S. imports of foreign oil in any meaningful way. We use about 25 percent of the world's oil. We have only 2 percent of the world's oil reserves. So my question to you is, what would be the impact on world oil prices of increasing domestic oil production?

Mr. COOPER. Thank you, Congresswoman.

In 2007, the Energy Information Administration, under an appointee of George Bush, looked at the question of what expanding access to the OCS would do.

And here is what they concluded: Access to the Pacific, Atlantic and eastern Gulf regions would not have a significant impact on domestic crude oil and natural gas production or prices before 2030.

That is the Bush administration.

At the height of the production increase created by access to the OCS, they projected an increase of domestic U.S. production of 200,000 barrels a day. Now that may sound like a big number, but in the global oil market, that is less than two-tenths of 1 percent of daily production today.

And what you have heard today, there is a theory that an increase of two-tenths of 1 percent 5 or 10 years from now is going to lower the price of gasoline today. Don't bet your farm on it. You would never make an investment on the basis of that kind of analysis.

So there may be lots of other reasons to look for oil in the Gulf, but lowering the price of gasoline is not one of them.

Mrs. CAPPS. Thank you.

I want to pick up on another thing that I have heard you say, and that is the key to reducing oil prices is to focus on how much oil we use. Reducing our share of global oil consumption from 25 percent could have a real impact on both oil prices and on imports. Last year, the EPA and the Department of Transportation issued new tailpipe rules for model years 2012 through 2016 on cars and trucks. The standards will reap tremendous benefits. Over the lifetime of these vehicles, this program will save $1.8 billion of oil because they will be able to go farther and people will go farther on a gallon of gas. And now the EIA projects U.S. consumption of oil will stop growing, allowing us to import less oil in the future than we did in 2007.

Now you represent a consumer organization, as I mentioned. Can you explain how strong fuel efficiency standards benefit consumers and also protect them from fluctuating oil prices?

Mr. COOPER. Madam Congresswoman, Mr. Pugliaresi gave you a hypothetical about what might happen with $20 a barrel and what happened with Iran and the Mideast, so let me give you another hypothetical: What happens if 15 years ago we had adopted a standard that would double our fuel economy, just as we have proposed today to go to 60 miles per gallon? We would be consuming half as much gasoline today as we are today. That would be more than 4 million barrels a day of consumption reduction. Now that is a significant amount of oil to take off the world market. That is over 4 percent.

That is the kind of reduction in consumption that gives you head room. In fact, 4 million barrels a day is equal to the total spare capacity in the world oil industry today. So if you double spare capacity, that is the way you alleviate pressure on prices.

That is why I say the most important step we can take in the short term is to make that long-term commitment, 15 years in economics is a long term, to actually reduce our consumption. We consume a quarter of the world's oil and gasoline almost. If we cut our consumption in half of gasoline, that has a big impact. But that takes 15 years. It takes the long term. And so we have to stop looking at quick fixes every time the price of gasoline jumps up because it is almost certain to fall down again and start looking at that long-term commitment to lowering our consumption.

Mrs. CAPPS. Let me see if I can get one more quick question in.

On Tuesday, this committee passed H.R. 910, the so-called energy tax prevention act that would actually take away EPA's authorities to set stronger tailpipe standards for cars and trucks made after 2016. Just answer quickly then, do you support allowing EPA to continue to work with the Department of Transportation to consider stronger tailpipe standards for cars and trucks?

Mr. COOPER. We support the interaction of a number of agencies. And it turns out that the Clean Air Act is what allowed 15 States to be involved in this space. So, in our Federal system, when we have 15 States and two agencies in the Federal Government coordinating, and that is the big development, looking at the problem from different points of view, we are better off.

So there is no doubt that the American consumer is better off today, we have a higher standard, because of the involvement of those States in the Clean Cars Program than we would have been otherwise. And we think that is good for consumers in the future.

Mrs. CAPPS. Thank you, Mr. Chairman. Thank you very much.

Mr. WHITFIELD. I am going to recognize Mr. Terry from Nebraska for 5 minutes, and then when he finishes, we are going to recess until 11, and we will be back at 11 to resume questions.

Mr. Terry.

Mr. TERRY. Thank you, Mr. Chairman.

Just an observation prompted by Dr. Cooper's colloquy with the gentlelady from California, we have heard some testimony here that anxiety or expectations within the marketplace tend to drive commodity prices. A real-life example was what we went through in 2008, where gas prices shot up above $4 per gallon, people were outraged. A lot have thought about speculation driving up the cost. But then when the President released a moratorium or repealed the moratorium on the Florida coast in the Gulf, prices dramatically started reducing. That is a real-life example of once there is some certainty put back into the marketplace, that it is known that there is going to be new fuel or oil in the marketplace, it relieved that pressure and that anxiety and brought the prices down. That is a real life example that is modern day.

And so Dr. Pugliaresi—Dr. P, us Irish have a hard time with Italian names. I don't know why. Would you agree with that assessment that just minor tweaks where the energy world sees that there is going to be additions alleviates anxiety and so will drive down the prices?

Secondly, I hear all the time that we have this 2 percent, that we control 2 percent, but yet with the Bakken field shale up in North Dakota, we are pumping out an unbelievable amount of oil from there that even 12 months ago was unexpected. Is it an accurate statement to say that since we only control 2 percent, A, is 2 percent accurate, and the fact that since we only control 2 percent, it doesn't matter if we drill or not drill?

Mr. PUGLIARESI. Let me give you an example.

Mr. TERRY. You have 2 minutes and 38 seconds.

Mr. PUGLIARESI. Let me give a counter example. I think the shale gas, we should really take the lesson off the shale gas because we, industry, Congress, the administration, everyone believed we were running out of natural gas. We were going to have very high gas prices. We built on the Gulf Coast in the U.S. large expensive LNG receiving facilities. There are operating at less than 10 percent capacity.

Mr. TERRY. By the way, it was Gene Green and I that had the LNG bill.

Mr. PUGLIARESI. It was a good idea. But we are now the largest natural gas producer in the world. There is not a single geologist that came here in front of this committee years ago that said, we have a lot of natural gas. They thought we had none.

So the notion that Dr. Cooper said that somehow we control X amount of the resources, look, we don't know until we drill it. We don't know until American ingenuity and technology has an opportunity to try different approaches. And if we lock up all our resources, we are never going to find out.

And another point that is very important, look, petroleum for a lot of reasons, has high value in the marketplace. It is relatively low to produce. It is expensive, but it is less than its value. It produces a lot of extra value. And that value is return on capital. It is revenues to the government, bonus bids, jobs, and most of the alternative fuels, and even some of the efficiencies, they eat money. They eat lots of money.

And so we have a dilemma here. We have to decide how are we going to move to the fuels of the future in a cost-effective way, in a way that generates a lot of economic growth? And if you foreclose this sector of the economy, which has so much value for sustaining economic growth, it is a huge mistake. And it is something we really need to sort of think through.

Mr. TERRY. I have 43 seconds left. So I am just going to give— Dr. Cooper, I have no doubt about the accuracy of your polling. But I will give a real-life story in Lincoln, Nebraska, Lincoln Electric, this is about a little over 10 years ago, they sent out a questionnaire to their customers, said, should we add wind power? It is going to add costs. But we would like to do it on a voluntary basis. Should we adopt this on a voluntary pay basis? Ninety percent, I think it was like 89 percent of the customers, sent back a survey checking, yes, absolutely, we want you to have wind power, and it will be paid for on a voluntary basis. They bought the wind turbines, put them up, sent out the voluntary sign up, and the take rate was about 7 percent.

So if you poll me, I want a 60-per-mile-gallon car. Am I going to pay five times more for it? No. So I think it is all in how we ask the question in a market society.

And I yield back my time.

Mr. WHITFIELD. Thank you, Mr. Terry.

And we will recess until 11 o'clock and look forward to coming back and resuming question and answers. Thank you.

[Recess.]

Mr. WHITFIELD. The hearing will come back to order. And I apologize we were a few minutes later than we said.

At this time, I will recognize the gentleman the Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Noe, a couple of weeks ago, a colleague of mine, not on this committee, but Congressman Boustany, who is from south Louisiana, and I introduced a resolution that would, hopefully, that would try and have a committee hearing and get floor time on streamlining some of the concerns I know a lot of us have about the Department of the Interior. The resolution requires streamlining, review and appropriate approval of applications for shallow and deepwater permits in the Outer Continental Shelf; to take immediate action to provide shallow-water and deepwater industry with a completed sample application which meets all of the new safety and environmental regulations as a template; and provide written guidance and clarification to applicants regarding new safety requirements; and, four, provide permit applicants with timely and detailed explanation on any areas of the permit which do not satisfy the new requirements.

Some of us in Congress are caught because whenever we say we are not issuing, whether shallow water or deepwater, they say, well, we don't have a lot of permits that are available. But I am also hearing that people aren't submitting them simply because they need to have some certainty on what they are doing. Is that the concern that we are hearing, that a lot of our shallow-water drillers particularly—and I know, maybe a lot of members, most of our shallow water is natural gas. If we could get oil out of it, we would be happy about it, because oil is much more lucrative now. So many of our shallow-water drillers are actually natural gas producers.

Mr. NOE. Well, Congressman, you are not alone in having failed to obtain the level of transparency from the Department of the Interior that is necessary to understand the true backlog of permits. We have asked for months, and in fact, members of this committee have asked in writing and other members on a bipartisan basis have asked the Department of the Interior to tell us one simple number: How many permits are pending? We have heard a number of different numbers. Secretary Salazar says one number; we say another. In fact, just recently in the Ensco litigation matter filed in the Federal Court in New Orleans, an affidavit was filed by a senior ranking member of the BOEM who said there are 270 pending shallow-water permits. So this numbers game is a source of frustration for us, Congressman.

And I think we owe, the American people are owed at least a true number of the backlog of actual permits. But I will tell you this: There is demand to drill natural gas and oil wells in the shallow waters of America right now. According to the BOEM's own Web site, there are 20 permits that are pending. Scores of others would, in fact, as you noted, Congressman, be filed if the industry had some level of certainty as to how long those permits applications will take to be reviewed. When will they be issued? What will my liability requirements be? What level of certainty will I have that the Federal Government will back up their rhetoric with action and issue the permits?

So I think, though, the true numbers are yet to be known, and, Congressman, I applaud you and Congressman Boustany for asking the questions because I think we deserve answers.

Mr. GREEN. Once a permit is approved, how many days does it take for you to get your workers actually back to work?

Mr. NOE. That is a great question, and Congressman, unfortunately, through the de facto moratorium that we have experienced since April, my company has kept many of its rigs idle. We have kept workers on the rigs chipping, painting, doing busy work, catching up with paperwork, catching up with training on the hopes and prayers that permits would be forthcoming. So many of our rigs that are idle are ready to go in a matter of weeks.

But operators sometimes take weeks if not months to plan their operations ahead of time, which goes back to the dramatic lack of certainty that is causing operators to just throw up their hands in frustration. Operators have to engineer the well. They have the secure caterers and cooks. They have to secure a drilling rig. It is an orchestrated process that takes time.

Mr. GREEN. I only have about 55 seconds left. Let me get to another question.

So you can't just turn on and turn it off. You have to actually have a plan. We wish it was an assembly line, but you just can't roll that rig out and get it producing within a day or week or even a month sometimes. That would be awfully quick.

Let me ask you, in your testimony, you talked about in recent months, governments like United Kingdom, Norway and Australia have carefully examined the continued use of the same type of drilling equipment we use in the Gulf of Mexico. And each country concluded that the industry can drill safely and they are better off securing their own energy and reap for themselves significant economic gains of a healthy oil and gas industry. We are talking about Norway, United Kingdom and Australia.

And can you elaborate on the process these countries went through because they stood down after what happened in the Gulf of Mexico with Horizon, but they are back out producing right now, aren't they, and drilling?

Mr. NOE. That is right. And they issued no moratorium in the U.K. As an example, the U.K., a very advanced technological place. They specifically considered whether a moratorium was necessary, and they concluded, just as President Obama should have concluded, is should we drill in our own waters using our own labor and reap the economic benefits from that activity where we know we can drill safely, or should we export those jobs and export our energy security to places that are unstable or potentially hostile to their interests?

Mr. GREEN. Thank you, Mr. Chairman, for your patience.

Mr. WHITFIELD. At this time, I recognize the gentleman from Louisiana, Mr. Scalise, for 5 minutes.

Mr. SCALISE. Thank you, Mr. Chairman.

I really appreciated the opening statements that you all made, hitting on a number of different points.

Mr. Noe, I want to start with some of the comments that you had made. You started off talking about the bankruptcy of Seahawk, and here is a company, as you said, both the second largest shallow-water driller. You point out that 85 percent reduction that we have seen in shallow-water drilling. Of course, this was a deep-water disaster with the Macondo well, the President has said many times, there is no moratorium on shallow-water drilling, yet as you point out, there is an 85 percent reduction in shallow-water drilling, not to mention what is going on in the OCS. And then you have this bankruptcy, kind of riveting the testimony you gave about actually having to be there and seeing some of those employees who literally are losing their livelihoods, losing their careers, not because they did anything wrong but because this administration has chosen to go down a path of shutting down an entire industry.

And so if you could tell me, because obviously this is not just limited to the companies along the Gulf Coast—the high gas prices that people are paying obviously is one national impact. But also the companies that these companies in your coalition do business with, they buy pumps for these rigs that are made by Caterpillar in Illinois. If you can give me a little bit of the ripple effects that this has throughout the country, not just in south Louisiana, with this radical policy.

Mr. NOE. Congressman, that is a great question. We need to understand very clearly that this economic tragedy is not limited to the borders of Louisiana and Texas, as you noted, Congressman. To give you one example, Hercules Offshore, on each of our drilling rigs, we have three engines; almost all of them they are manufactured by Caterpillar made in Illinois. We conducted a survey of just our members in the last couple of years and the spin that we contribute outside of Louisiana and Texas is frankly staggering: $376 million came from the State of Illinois, far from the Gulf of Mexico. And that extends to States like Oklahoma, $125 million over a 3-year period of just this survey that we conducted; Colorado $35 million. We buy each of our several thousand workers two pairs of Red Wing boots every year, made in Red Wing, Minnesota. The tentacles of the economic connection of the industry reach far beyond the Gulf South and will reach the home States of your constituents today.

Mr. SCALISE. Let me ask Mr. Adams to touch on that, too, because I know you represent a large group of companies that work in the industry as well. What kind of ripples are you seeing?

Mr. ADAMS. Well, we are seeing a ripple effect across south Louisiana directly. Imagine being a shipyard owner or a shipyard worker: 2011, the market anticipated the deepwater wells would move up to somewhere in the mid-40s from 33; there were plans for that. There were vessel orders made, and those contracts had to be pulled back. There was no work for the vessels that would be built.

And then the ripple effect for building a vessel goes across the country, just as Mr. Noe said. We also, our whole industry is about delivering goods and people out to the rigs, and that goes from groceries to all kinds of hardware supplies, and that is just shut down right now.

Mr. SCALISE. I know, Mr. Daniels, I share a lot of the concerns you have about tourism, seafood. In fact, I still eat, I love eating the great Gulf seafood that we have. We have been pushing the

FDA to ramp up testing. I think right now Gulf seafood is probably the safest most-tested food in the world because of this.

I think the biggest frustration a lot us have is that the people being punished aren't the people who actually created this disaster. BP, in their negligence, they cut the corners, and yet it is the companies that are represented at this table, that had absolutely nothing to do with it, that have played by the rules, actually have a higher bar for safety, and yet you have got the President that is literally initiating a policy that is going after and shutting down an entire industry. And it is leading to higher gas prices. It is leading to thousands of job losses.

And I think what is most irritating, we have been trying to get a meeting with the President to talk specifically about this issue. I have got a letter I would like to ask unanimous consent to enter into the record.

Mr. WHITFIELD. Without objection.

[The information follows:]

Congress of the United States
Washington, DC 20515

June 14, 2010

President Barack Obama
The White House
1600 Pennsylvania Ave., NW
Washington, DC 20500

Dear President Obama,

The Members of the Louisiana Congressional delegation respectfully request a meeting with you to discuss the dire economic impacts the current policy on deep and shallow water drilling is having on our state. The moratorium on deep water drilling and the new regulation and deadlines for shallow water drilling is already causing job loss in our state.

The deep water moratorium has idled 33 rigs and the workers on these platforms. In addition, there are thousands more workers who provide services and support including welders, electricians, mariners, caterers and engineers to a rig that aren't directly employed by the drilling operator. The ramifications of the moratorium and additional regulations are being felt. Already one company has announced plans to move three drilling platforms from the Gulf of Mexico and a maritime company has warned of laying off several thousand employees. Hundreds of small businesses that provide specialized services or equipment to energy companies are seeing reduced sales and their employees are worried about layoffs or pay reductions.

Please let us know about your availability for such a meeting.

Sincerely,

Mary Landrieu
Senator Mary Landrieu

David Vitter
Senator David Vitter

Rodney Alexander
Congressman Rodney Alexander

Charles W. Boustany Jr.
Congressman Charles Boustany

Charlie Melancon
Congressman Charlie Melancon

Steve Scalise
Congressman Steve Scalise

Joh Cao
Congressman Anh "Joseph" Cao

Bill Cassidy
Congressman Bill Cassidy

John Fleming
Congressman John Fleming

Mr. SCALISE. Our delegation, all Republicans, all Democrats, back in June asked to meet with the President to talk specifically about this issue. I think what is most frustrating, not only have we not gotten a meeting, we haven't even gotten a response from the White House.

This is the entire delegation talking about a policy that has led to thousands of jobs, and yet the President has time to go and do his brackets for the NCAA tournament. We know the President's bracket picks. We don't know his energy policy.

The energy Secretary yesterday sat here and said he can't tell us the President's plan to lower gas prices, but he has got time to let people know what his picks are for energy.

I would like to also ask unanimous consent to issue into the record—this is a letter 100 Members of Congress signed to the President weeks ago asking him to let these people get back to work drilling safely. We still haven't gotten a response on this letter.

[The information follows:]

Congress of the United States
Washington, DC 20515

March 1, 2011

President Barack Obama
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President,

In light of continuing instability in the Middle East and in North Africa, we write today to urge your Administration's immediate action to ensure America's energy security by expediting the permitting process for safe offshore energy exploration and development without further delay.

The ongoing unrest and rising volatility throughout the Middle East underscores the urgency to put our country on a path toward energy independence. U.S. oil prices recently jumped above the $100 per barrel mark for the first time since 2008, and as prices continue to rise, American families and businesses are already feeling the impact in their pocketbooks and at the pump. Our country is home to vast energy resources, and your Administration has forced American exploration and drilling to a halt in the most critical region of the U.S. that provides our domestic energy supplies.

The Gulf of Mexico produces nearly one-third of our domestically produced oil, and offshore natural gas production in the Gulf accounts for 13 percent of total U.S. production. While your Administration's official moratoria on drilling permits were lifted on May 28, 2010 and October 12, 2010 for shallow and deepwater drilling permits respectively, a de facto moratorium ("permitorium") still exists and must be lifted without delay. The Bureau of Ocean Energy Management (BOEM) has issued only one deepwater drilling permit and only 32 permits for new shallow water wells since the official moratoria were lifted, which is far below the 10 permits per week that were averaged before the Macondo well spill.

Not only is American energy security at risk, so too are thousands of American jobs. In addition, these policies by your Administration are a contributing factor to the increase we're seeing in gasoline prices at the pump. As a result of the uncertainty by the federal government, seven floating rigs and five jackup rigs have departed the Gulf of Mexico since the Macondo spill. There are currently an additional four rigs that are considering leaving the Gulf of Mexico. With one rig equaling 500 jobs (100 workers on the rig, plus 400 workers supporting drilling operations onshore), thousands of jobs across the Gulf Coast both upstream and downstream remain at risk. This industry in the Gulf of Mexico comprises not only oil and gas companies, but also a network of suppliers and contractors that purchase goods as diverse as forgings, valves, computers, chemicals and helicopters from suppliers in all 50 states.

As the executive in chief, you have the ability, and more importantly the duty, to direct your Administration to act in a manner that protects our national energy security and American jobs and ensures that we do not remain hostage to the political tensions of Middle Eastern nations. We respectfully ask that you direct DOI and BOEM to remove the barriers to the safe exploration and production of our domestic energy resources that are vital to all Americans and to our energy security by bringing immediate and very concrete clarity for offshore permitting and require DOI and BOEM to immediately hasten the approval of permits for safe offshore drilling.

There is no time more urgent than now to require this action. We need to safely and responsibly produce our domestic resources offshore in order to reduce this reliance on Middle Eastern imports and in turn, increase our economic growth. The Gulf of Mexico holds the largest and most productive oil resources in the United States, and further delays to safely producing these domestic resources will severely jeopardize our energy security and leave us more dependent on the volatile Middle East for our energy supplies.

Sincerely,

NY-29

Ch Boustany	Bill Cassidy
Alan Nunnelee	Richard B. Nugent
Rob Woodall	Steve Stivers
John J. Duncan Jr.	Joe Wilson
[illegible] Benton	Dan [illegible]
[illegible]	David P. Roe
Don Young	Leonard Lance
Doug Lamborn	[illegible] Heller
Martha Roby	Geoff Davis
Mary Bono Mack	Bob E. Latta
Todd Rokita	Buck McKeon

John Fleming [illegible]

Tim Walberg Lou Barletta

Michael G. Grimm Adrian Smith

Ron Paul [illegible]

[illegible] CO-4 [illegible]

Patrick T. McHenry [illegible]

Bob Gibbs Paul C Broun

Bill Johnson GT Thompson

Tim Huelskamp Devin Nunes

Vicky Hartzler Steve Chabot

[illegible] [illegible]

[illegible] [illegible]

NY-3

Mr. SCALISE. It is time for the President to act. This is costing jobs. It is raising gas prices, and it is killing America's energy security.

I yield back.

Mr. WHITFIELD. Without objection.

At this time, the gentleman from Washington, Mr. Inslee, is recognized for 5 minutes.

Mr. INSLEE. Thank you.

Just for the record, I would like to say, since our commander in chief was questioned about basketball, I would bet a dollar he could beat the last gentleman in a game of one on one. I would like to see it.

Mr. SCALISE. I would take him up on that. I would like to meet with him to do that. If that is what I need to do to meet with him, I will take him up on that. I will challenge him in a day. Thank you, Mr. Inslee.

Mr. INSLEE. Well, he has taken me to the hoop, so he is a good ballplayer.

I want to ask Dr. Mason some questions.

And, Doctor, the reason I am asking you these question is you have "doctor" in front of your name. That is why I am asking you these questions.

So if you went to the doctor and the doctor told you you had cancer, what would you do? Would you listen to him in general?

Mr. MASON. It depends on what kind of doctor.

Mr. INSLEE. Let's assume he was a good doctor. Let's assume he was a Nobel Prize-winning doctor.

And let's say you had some questions about that diagnosis; as a rational person, you went and got a second opinion, and that doctor told you you had cancer. Do you think you might pay attention to him?

Mr. MASON. Perhaps.

Mr. INSLEE. Let's say that you had some questions about that doctor, so you went to 2,500 other doctors, and they all told you you had cancer. If that happened, would you then go to keep trying to find a doctor who said you didn't have cancer, or do you think you might do something about it?

Mr. MASON. Well, 2,500 qualified doctors within their specialty field, perhaps.

Mr. INSLEE. So what this, so you will know, what this committee has found out is that there is, at a minimum and a lot more, 2,500 qualified science doctors who have concluded that the Earth has a pathology and that pathology is carbon dioxide pollution, which is radically changing its ecosystem to our detriment.

Now this committee voted essentially to ignore all of these doctors and sort of go try to find some other doctors somewhere in the Earth that had some question about it and have ignored all of the physicians of the Earth who have told us we got a problem.

Now, from what you know about the science, and I will give you a chance to voice your opinion now, do you think the state of these physicians of the Earth who have told us we have a problem, do you think we should listen to them and try to do something about this pathology we are experiencing, namely carbon pollution in the Earth?

Mr. MASON. I see no problem doing something about it. I am not an environmental scientist or really feel qualified to opine in any expert capacity about carbon's contribution to pollution. My personal belief is that it certainly plays a role, however.

Mr. INSLEE. So your belief is, based on what you know of the science, that carbon pollution probably does play a role in some changes in the climate; is that a fair statement?

Mr. MASON. I see—I don't object to that statement, no.

Mr. INSLEE. Well, unfortunately, the Republican majority did who voted en bloc on a continuing front on their war on science to deny all of these scientists yesterday, just so you will know.

I want to refer to some production numbers about oil production in the United States. Could we put the graphs up? The first graph I would refer the panel to is a chart showing U.S. domestic oil production, which sort of bottomed out in 2008—I think that was the year that President Obama took office—and has gone up in 2009—excuse me there is a different bar chart. I think we have them in a different order. Now we are looking at the right chart. You will see they bottomed out at about 6.7 million barrels per day when President Obama was elected. Since then, it has been going up. It is about 7.3 in 2009; it is about 7.5 in 2010. These are production numbers from the U.S. energy agency.

Next slide, please.

This slide shows Gulf of Mexico crude oil production million barrels per month. You will notice it was going at about 40 million barrels per month pretty steadily from October 2006 to Hurricane Gustav and Ike, when it plunged in October 2008, came back fairly rapidly in the first few months of the Obama administration, and now has been in a relatively steady state with some ups and downs, about 5 million barrels per month production during the Obama Presidency.

Next slide, please. The next slide shows annual U.S. natural gas gross withdrawals. We will see that you get over toward the right side, you will see 2000 pretty steady; 2008 it has been going up, fairly dramatically in the last 2 years, 2008, 2009. And right to the right of the graph, you will see that it is going up.

Now from these slides, which are numbers—these are not talking points. These are not propaganda. These are not political hack jobs. These are numbers. Now, from the numbers, it looks to me like the United States is experiencing an increase in domestic oil production, an increase in Gulf of Mexico, or at least a stable production in the Gulf of Mexico, and a significant increase at a fairly rapid rate in natural gas production United States. And I just think it is important for us to look at the numbers. The numbers don't lie, and propaganda does. Thank you.

Mr. NOE. Congressman, could I add something to that? Could I answer that question?

Mr. WHITFIELD. Yes, sir.

Mr. NOE. I think it is a fundamental misunderstanding of the way the oil and gas industry works for the Obama administration to take credit for the increase in production. The increases in production that we have seen in the last couple of years are the result of new oil coming on line that was decades in the making, literally decades in the making in planning, just to name a few, and these are all major new finds that took years and sometimes decades to plan and bring online: In 2007, Independence Hub and Atlantis; 2008, Neptune, Blind Faith, Thunder Horse; 2009, Mirage, Tahiti; in 2010 Telemark, Perdido. These took years of planning, and they were planned and executed under the apparatus of the prior administration. And the Federal Government's EIA has already stated itself that production has declined in 2010 and will continue to do so in 2011.

Mr. INSLEE. That is really interesting because you were really to happy to point out he shouldn't get any credit for this, but he should be responsible for everything else that happens in the world, including increasing gas prices, which is a result of demand increases from China and India.

Thanks a lot for being fair to our commander in chief.

Mr. WHITFIELD. Mr. Griffith, you are recognized for 5 minutes.

Mr. GRIFFITH. Mr. Chairman, if I could yield to the gentleman from Louisiana.

Mr. WHITFIELD. The gentleman yields 5 minutes to the gentleman from Louisiana.

Mr. SCALISE. I thank the gentleman for yielding. Mr. Inslee's idea, I will be happy to take him up. If challenging the President to a game of one-on-one basketball gets me a meeting with him, so we can talk about this crisis that has led to thousands of job losses and higher gas prices, I will be happy to challenge the President to basketball.

And frankly, I think I could take him in a game of one on one. I have seen him throw a baseball. So I will be happy to offer up that challenge, and hopefully, the President accepts. And during the game, we can talk about the fact that you have got thousands of people who have lost their job and cannot get a response from this administration.

And this problem is getting worse. When you talked about, I think, Mr. Adams, you talked about the revenue losses. I think the second largest generator of Federal revenue, next to income taxes, is the revenue paid by the oil and gas industry. I know a lot of people like to beat up on the oil and gas industry and then act like they are not paying any taxes; the second largest generator of Federal revenue is the oil and gas industry, primarily because of leases, the bonus bids, the royalties, not only to Federal Government, to State and local government. And with this attempt or this—not attempt, this policy of the President to shut down this industry, just what would that mean terms of revenue?

And I think you had some recent revenues of how much money the Federal Government collected on all of these various form of payments from the oil and gas industry. Can you, Mr. Adams, touch further on that?

Mr. ADAMS. I believe, my testimony, I had $1.4 billion in taxes directly from our segment.

Maybe Mr. Noe could help me with the full royalties. I would like to make two points real quickly. Taking credit for last year's production is like the farmer asking the banker to give him credit based on last year's yield when he has failed to put in a crop this year. It just doesn't work.

And the other part of this whole economic and jobs argument that I think needs to be appreciated is exploration is labor intensive. It is capital intensive. Production is production. The best production doesn't require intense labor or intense capital.

And so that is why the vessels that serve these deepwater rigs, which are the hive, and our vessels are the bees of activity, that is why we are in an economic depression right now.

Mr. SCALISE. Mr. Noe, did you want to also follow up on that?

Mr. NOE. I just echo on what Mr. Adams said. The biggest benefactor and really if you think about it the biggest oil company in the world and the biggest shareholder of any oil company in the world is the U.S. Federal Government. The U.S. Federal Government controls offshore leasing and, since 1982, has received over $200 billion from a variety of royalty payments, lease payments et cetera. It is in the billions; of course, not just from leasing activity but from bonuses paid for lease sales, which is important to note that this year, in 2011, will be the first year in 60 that we haven't had a lease sale. The Department of the Interior——

Mr. SCALISE. The first time since when? I am sorry to interrupt you.

Mr. NOE. In the last 60 years. We have had an offshore lease sale for a generation.

Mr. SCALISE. Just using the logic of the President if he is going to try to take claim for production today that was authorized, explored years ago, I guess, in a few years, that means that a future President is going to have a big reduction in production, and I guess the President will blame that next President because of the policies that are being made today that are strangling this industry. Would that be an accurate statement?

Mr. NOE. That is accurate. And to respond to the Congressman from Washington, this industry is purely supply and demand. He is absolutely correct that supply is on the increase—or demand is on the increase from places like India and China, who have recovered much faster from a recession than we had anticipated, and that increase in demand requires a barrel for barrel increase in production if you are going to keep prices flat.

And what we have seen is a decline in production. So if demand goes up, just economics 101, if demand goes up, supply goes down, make no mistake that prices will go up and that is what we are experiencing now.

Mr. SCALISE. Historically, when you look through this time of year, during the winter, is typically when gas prices are going down. The summer is when they go up. And this is a historically high level of gas prices, not because of what is going on; in fact, the gas prices were rising well before the events in the Middle East and North Africa. It was because of the President's policies.

And I want Dr. Mason and maybe Mr. Pugliaresi to comment on this because you talked about not only the lost revenues but also the supply and demand issue and the policy, the Federal policy shutting off production will actually lead to higher prices today. If you all can finish with that.

Mr. MASON. If I may, I just wanted to mention I did talk about the lost tax revenues from the Gulf closure, those I have estimated to be on the State and local level of about $155 million so far and counting; on the Federal level, about $350 million. It is just very simple math. If people don't have incomes, they are not going to pay income taxes and they are not going to spend income that they don't have to generate sales taxes.

I would also like to follow up on the analogy of the cancer, if the doctors wanted me to follow a course of treatment for my cancer that could cause another cancer, I would think twice about following that course of treatment, especially if the doctors were paid by the drug companies that were sponsoring that course of treatment. So there is a pure conflict of interest there. Thank you.

Mr. SCALISE. Thank you, Mr. Chairman.

Thank you, Mr. McKinley.

I see I am out of time.

Mr. WHITFIELD. At this time, I recognize the gentleman from Colorado, Mr. Gardner, for 5 minutes.

Mr. GARDNER. Thank you, Mr. Chairman.

And thank you to the witnesses for being here today and spending time with us to share your expertise.

Just a question for you, if I could start with Mr. Pugliaresi, if I could start with you and just answer this question perhaps down the line, do you believe the administration is doing enough to help lower gas prices by this summer?

Mr. PUGLIARESI. No, absolutely not. Of course, it is hard to know what expectations, how they may shift things. But as we say, if we had a very aggressive development program, if we had approved Keystone, if we had not denied the permit for Shell to drill in the Beaufort Sea, we are creating a set of conditions out there in which it appears that we are unwilling to produce our own resources.

Mr. GARDNER. Dr. Mason.

Mr. MASON. I think there are two things that can reduce gas prices. The one that people typically point to is increasing supply. So, certainly, if we had enough supply on line, demand would adjust to supply and we would see lower prices.

The other thing, though, is reducing demand. And it strikes me that nobody has really talked much about what I think was a very good idea that the Republicans advanced a little while back about revisiting some old regulations and doing away with them. And one key regulation we still have on the books prohibits the production of high mileage diesel automobiles in the U.S. because of old, stinky 1970s diesel, which is not even available in the U.S. anymore. We can have 65-miles-per-gallon cars right now with the stroke of a pen. Nobody wants to do it.

Mr. GARDNER. Could you send me information on the regulation you were referring to? Thank you.

Dr. Cooper.

Mr. COOPER. The ability of the President or any other policy maker in Washington to affect the price of gasoline by the summer is quite limited. It is the long-term decisions that we make. I look on the demand side and see if we actually adopted a 15-year program to double our gasoline mileage 15 years ago, we would have twice as much spare capacity in the world, and we would be a lot better off. So in the short term, I think short-term fixes are a mistake because they only make the long-term problem more difficult.

Mr. GARDNER. So do you think the Obama administration has a plan to deal with increasing gas prices?

Mr. COOPER. I think any administration that said they had a plan to deal with gasoline prices would be whistling in the wind, as every one of the past seven Presidents have been. They simply—President Bush was faced with constant ups and downs in gas prices, and he never had a plan. Jimmy Carter didn't have a plan.

The simple fact of the matter is that the President's ability to affect the price of gas in a 30-day or 60-day or 90-day period is extremely limited. And it is a mistake to claim you can do things that you can't do.

Now it might be fun to blame him, depending on which side you are on. But the simple fact of the matter is that, and you have heard it here today, taking responsibility or throwing blame at Presidents, especially over the short term, is just a political game. It has nothing to do with sensible policy.

Mr. ADAMS. Thank you, sir.

I believe the President's moratorium is planned moratorium, is raising gas prices and killing jobs.

Mr. GARDNER. Mr. Daniels.

Mr. DANIELS.well, I am just a small businessman, not an oilman, but I can tell you this, the only way the President or this government can control the price of gas is to socialize it, and Heaven forbid that happen. That won't happen.

With that said, the only other way he can control gas—I noticed something else when it comes to supply and demand as it is in most businesses, as we do business at our peril, it used to be on the other end supply and demand. Now, as a business, we demand as much as they can pay. And now we are dealing with what I call the squeal factor. Unfortunately, we have graduated a few folks coming out of Harvard maybe who feel, OK, we have to get everything done on time, we have got to have production below, above the expectations and completion below the——

Mr. GARDNER. Mr. Daniels, I am sorry. I have to make sure we get to everybody.

Mr. Noe.

Mr. NOE. Just one quick thing. I said that this is the first time in 60 years—actually, it is the first time in 45 years that we don't have a lease sale. But I would say, look, I don't want a sound bite. I don't want to testify before Congress. I want to go back to Houston and put my workers back to work. And I want to drill for oil and gas. I am not out to blame anybody, but I will say that if you let me go drill for oil and gas, I am going to produce more and that will impact gasoline prices.

Mr. GARDNER. Mr. Massey.

Mr. MASSEY. My focus today really should be on the marine well containment company. I can say that our members have permits in, and if they are allowed to drill and those wells are successful, that is new production, and new production is good.

Mr. GARDNER. Mr. Noe, President Obama last week said, "I will go anywhere any time to be a booster for American businesses, American workers and American products."

In your opinion, does domestic energy development boost American businesses, American workers, and American products?

Mr. NOE. Absolutely. And not just for oil workers, as we mentioned, it is the hard hat manufacturer in Pennsylvania; it is the steal toe boot manufacturer in Red Wing, Minnesota. This is a nationwide economic tragedy that is occurring.

Mr. WHITFIELD. At this time, I recognize the gentleman from West Virginia, Mr. McKinley, for 5 minutes.

Mr. MCKINLEY. Thank you, Mr. Chairman.

Dr. Cooper, can you tell me a little bit, this is the first opportunity I have had to talk to someone about the CAFE standards. What happens to a manufacturer who does not meet these those standards? Are they fined?

Mr. COOPER. Well, in the past, they had been fined, but it turns out they haven't frequently paid fines. They have been excused from fines. But that is part of the program, is the incentive to meet the standard is to pay the fine, and therefore, it is better to meet the standard.

Mr. MCKINLEY. I was suspicious that they were fined, whether they paid them or not or however they worked out those things. What I don't understand is, from the free market, if people, if your statistics are correct, that people want cars to have 60 miles per gallon, why aren't they manufacturing them then? And why is it that the Federal Government is going to step in and say, we know better than the public? If the public really wanted cars at 60 miles per gallon, can't they buy them?

Mr. COOPER. In point of fact, the supply side of the automobile market is not perfect. And so you had American manufacturers who completely missed the shift in demand, and they kept manufacturing gas guzzlers, because their rate of profit internally is higher on gas guzzlers than it is on efficient cars. And now, having gone through bankruptcy, GM has reproduced itself, recreated itself as an efficiency-oriented company. They said they will meet the 60 miles per gallon, Toyota has said they will meet the 60 miles per gallon. So a standard, here is what a standard does. It takes the risk out of investing in those technologies because they now know——

Mr. MCKINLEY. I like the idea of having cars that have 60 miles, but that should be my choice as a consumer and not the Federal Government. Honestly, I tell you I can't find anything in here, in the Constitution, that allows us this right to tell the public or tell the manufacturers, can you share with me what section of the Constitution, where would I find it in there that says we are going to set the standards for automobiles?

Mr. COOPER. Well, the, as interpreted by the courts for at least in the case of fuel economy standards, for 40 years——

Mr. MCKINLEY. Can you get back to me on that?

Mr. COOPER. I will be glad to give you a legal history of why it is that the government can protect the American people. So now every time you consume a barrel of oil, you are sending a troop to the Middle East.

Mr. MCKINLEY. Sixty-mile-per-gallon car, but you are going to put more people at risk because you know very well that individuals that are injured that are in impact accidents in smaller vehicles to achieve your ideologically driven motivation is more highly likely to be injured in an accident——

Mr. COOPER. Absolutely not.

Mr. MCKINLEY. You know that?

Mr. COOPER. Absolutely not.

This standard does not require weight reduction, and if it did require weight reduction, it would be with high-strength materials. Science has produced much stronger materials that weigh less. So there is absolutely no reason to believe that that is the case.

Mr. MCKINLEY. You are not denying that there are more injuries in smaller cars, is that what you are trying to tell us, this panel, that you are safer in a small car——

Mr. COOPER. Today?

Mr. MCKINLEY. Getting gas mileage with safety——

Mr. COOPER. With air bags, you are safer in a smaller car today than you were in a bigger car 30 years ago. With seatbelts, which the industry never gave us. Let's talk about seatbelts. Now there is a government program that infringed your freedom to sit in a car without a seatbelt and impose all kinds of costs. Are you against seatbelts? Absolutely not. There are millions of Americans alive today because the government decided that seatbelts and air bags were good for you.

Mr. MCKINLEY. Just tell me what section it is.

Mr. COOPER. You didn't know well enough to know that you needed a seatbelt or an air bag. So we helped you out. Seatbelts and air bags. Think about it. Tell your constituents that they really should be in cars without those safety features. The industry never gave us those. The regulation did.

Mr. WHITFIELD. At least we have some enthusiastic witnesses, which I think is important.

Mr. RUSH. Mr. Chairman, in our chamber it's been our practice that the witness should be allowed to answer the question, so you cut him off in the middle of his answer.

Mr. WHITFIELD. Dr. Cooper, do you want to make another statement?

Mr. COOPER. Obviously, there is a philosophical difference here, and I have got millions of live people who are actually better off because we told them to wear seatbelts.

Mr. WHITFIELD. We want to have lively hearings, and we appreciate your being here.

And Mr. Daniels, it is my understanding that, as much you don't want to leave, you need to leave. So we will excuse you. We do thank you for joining us, and we look forward to being in touch with you more on these issues. Thanks for attending the hearing.

At this time, I recognize the gentleman from Texas, Mr. Olson, 5 minutes.

Mr. OLSON. Thank you, Mr. Chairman, and thank you to the witnesses for coming today and giving us your expertise.

And I promise I am not going to have some of the fireworks that my colleague from West Virginia had because I am not going to talk about or ask questions about CAFE standards. I want to get back to the Gulf. And I am going to ask you basically three questions: The first one is kind of, when do you think this economic nightmare is going to end?

We have had a moratorium that supposedly the court threw out that was lifted, replaced by a permatorium. And in my opinion, the industry, this was a great safety record, 20 years out there drilling in the deep water, and the largest oil spill in American history, I grant that, and the industry has responded as best they could.

One thing the industry did all by themselves, and Mr. Massey, I think you are somewhere down at the bottom of this picture, but this was an industry driven solution to the problems we encountered in April with the Macondo well.

And again, one thing we can't get a handle on here is what is really happening out there in the Gulf?

And so the question I have for probably you, Mr. Noe, and Mr. Adams and Mr. Massey, is how many rigs, how many deepwater rigs have left the Gulf as of today?

Mr. NOE. Congressman, there have been I believe 12 rigs that have left the Gulf since April and others that are negotiating contracts, long-term contracts, outside the Gulf of Mexico. In May of 2010, there were 25 floating rigs and 39 shallow-water jack-up rigs actively working in the Gulf of Mexico. By January of this year, only 8 floating rigs and 27 shallow-water rigs were actively employed in Gulf of Mexico activities. So rigs are in fact idle and either idled in the Gulf of Mexico and have laid off their crew or, like Hercules, are keeping their crew on the payroll despite the fact that the rigs aren't working, and then we have seen other rigs leave the Gulf of Mexico entirely.

Mr. ADAMS. So we have had 60 highly technically capable offshore vessels leave the Gulf of Mexico for foreign operations.

Mr. OLSON. So, basically, we have been taking American jobs overseas and increased our dependence on foreign oil.

Mr. ADAMS. In the case of the vessels, that is 1,100 U.S. jobs for those vessels. And those jobs, as they enter into foreign markets, will by the requirement of most countries be replaced with foreign nationals.

Mr. NOE. Congressman, I will add that when rigs leave, it has a cascading negative impact on America.

First, obviously, the rig is no longer available to produce domestic sources of oil and natural gas. The jobs leave with the rigs. The tax revenue that is generated from the economic activity associated with those rigs leaves as well.

And then we can't forget the fact that we spend nearly $1 billion each and every day on buying oil from foreign sources from the Middle East, from North Africa, almost $1 billion a day. And so when those rigs leave, they just produce oil and gas in some far flung land, and we are just going to buy it back and give it to some potentially hostile regime to put on a tanker and to float it up into our ports.

Mr. OLSON. Again, less American jobs, more dependence on foreign oil.

One last questions, this is more about the jobs. Mr. Adams, I want to say I have seen, I have heard the testimony specific to what you are talking about, about the small companies and what they are doing to carry on.

And I think Mr. Scalise was there and Dr. Mason. We went down to New Orleans in August I believe it was, Steve, and we had a woman who ran a—she was the president of a rig, a boat company that was going back and forth to the rigs, about 30 employees. We asked her, how are you getting by? And she said, well, I have had to cut the pay of two of my people, herself and her husband. They were taking nothing to carry the rest of their people as long as they could until this moratorium got lifted.

Dr. Mason, this question is for you, the administration, I have seen estimates they did about the job loss somewhere in the 22—somewhere under 30,000 jobs across the country. And I know you have done some research that indicates that that is just a drop in the bucket. It is much more than that, with all you take, all the indirect costs, just not throughout the Gulf Coast but throughout our entire Nation. And I wonder if you could elaborate more on the job costs, just not what is happening now, the direct jobs, but what is going to happen in the future and how it is going to impact or economy negatively.

Mr. MASON. Thank you. First, I would like to point out that the administration's estimates were, for no explainable reason and no empirically justifiably reason, cut in half to reach their final numbers. They have never explained that. They have never defended it, but knowing what I know about the methodology, I know there is no reason for it either.

The losses continue to mount. They just continue to build. And as others have pointed out, these losses are to the Nation. The drilling pipe comes from steel mills in Ohio, Indiana, around the Chicago area, where I grew up. All those materials come from throughout the Nation. We are an integrated economy. It is an economic fact that if you raise costs for businesses, there will be less production.

But it appears that, with respect to your first question, Mr. Olson, when will this end? I hate to say it, but I think it goes far beyond energy and oil and gas. I think that it is a far-reaching problem throughout regulatory agencies. We have the example of the EPA regulating carbon, which is still challenged as whether it is within their authority. The EPA previously regulated tallates in a similar way with a permatorium; this is nothing new. They did both without any economic impact studies whatsoever. The EPA hasn't conducted an economic impact study in decades.

We are going after the—well, Consumer Financial Protection Bureau is now trying to regulate foreclosures backdoor through a settlement. And so, you know, BOEMRE is just following in the footsteps of other agencies and I guess doing what modern agencies do. And unless we are ready to constrain regulatory agencies and their activities to affect economic growth and of willy-nilly, well, we are going to have this same yanking around.

Mr. OLSON. Thank you, Dr. Mason.

Mr. Chairman, if I can yield back no time, I yield it back, thank you.

Mr. WHITFIELD. You did a good job at that, thanks. This time I recognize the gentleman from California, Mr. Bilbray, for 5 minutes.

Mr. BILBRAY. Thank you very much.

Mr. Cooper, do you think there is any short-term or long-term benefit for America opening up more public lands for oil exploration and exploitation?

Mr. COOPER. Consumer Federation is a consumer group. We don't deal with environmental questions. I believe that supply can help. Unfortunately, it becomes a distraction, not a solution. So the potential contribution from the demand side——

Mr. BILBRAY. OK. Now would you agree that research and development of second-generation green fuels would be beneficial for long-term approach of——

Mr. COOPER. Supply side can help us lower—well, it probably wouldn't affect the world price of oil.

Mr. BILBRAY. I am not talking about supply and independence.

Mr. COOPER. It will create domestic sources——

Mr. BILBRAY. All right. Let me give you two scenarios. We today are exploring billions and billions of dollars to the Third World by buying oil overseas while we have oil potentials within our own boundaries. What if I propose to you that this Congress passes a law that any new areas opened up for oil exploration will have those revenues or a portion of those revenues committed to a fund, much like what we have done with interstate freeways, and that is have a committed fund directly for a certain purpose. And what I would propose to you is, what would be your reaction to a piece of legislation that said we will now open up public lands for exploration with the funds, profits from that being dedicated to next-generation green fuels? So rather than our money going oversees to Third World countries, it may go into the United States, but a large portion or a portion of it will be set aside to develop those next-generation fuels.

Mr. COOPER. We firmly believe in compromise, pragmatic legislation. I would bargain for a firm commitment to a much higher fuel economy standard, because that will do us a lot more, but we will certainly look at it. And my resolutions don't oppose that. We really want to make sure we use the royalties well.

Mr. BILBRAY. Well, the fact is, sir, if we went to diesel, you know those numbers and you saw what happened in the 1970s. I was a member of the Air Resources Board, so I have watched this stuff. I was a member of the air district—I mean, the ARB in California. So I have watched this thing go. The fact is, though, we cut get better mileage, but the fact is diesel is a toxic emission, mega times over what dioxin is, so a lot of these things have offsets that we have to look at. But my question again is the fact that we have these options that we can develop it.

You were talking about the CAFE standards. Are you aware that the CAFE standards are set with 100 percent fossil fuel as the fuel being used to set those standards?

Mr. COOPER. Going forward, we are incorporating other fuels in there. So we clearly have a——

Mr. BILBRAY. Whoa, whoa, whoa. Who is——

Mr. COOPER. We have a flexible fuel offset in the current standards. We are looking at how to deal with electric vehicles in future standards.

Mr. BILBRAY. OK, let me—right now, EPA tells me, as they always have, they are using fossil fuels, 100 percent, even though that is illegal in the United States. No consumer in America has the right to buy fuel for his system that doesn't—that is 100 percent fossil fuels; that is not an option for consumers today. But the Federal Government continues to use that in their standards.

Mr. COOPER. The standard clearly has an offset for flexible-fuel vehicles, which actually assumes——

Mr. BILBRAY. I am not talking flexible fuel. I am talking about the fact that you are mandated to put ethanol in your fuel today; nobody can sell gasoline without ethanol. Ethanol has only 70 percent of the carbon chain, and you do agree that ethanol is a mileage-robbing additive into our fuel stream.

Mr. COOPER. Actually, the jury is out on what it does to mileage because of the way it affects knocking and efficient burning.

Mr. BILBRAY. Wait, whoa, you are telling me as an expert in this that you feel that ethanol gives the same mileage as gasoline does?

Mr. COOPER. No, I said I have seen evidence on both sides of that, but it is——

Mr. BILBRAY. Before you go any further, I would be very interested, sir, to see that.

Mr. COOPER. I will submit that.

Mr. BILBRAY. I am telling you, in the 6 years at ARB, we knew that this was a problem in California in 1992 when the Feds were looking at this. I have watched this issue go over.

Now, I will just say this, when you get to the mileage, that that additive, we now have laws in this country that says if you have alcohol, if you use ethanol, you get the tax write-off, you get the mandate, you get subsidized. But if you come in with green fuel, algae fuel——

Mr. RUSH. Regular order, Mr. Chairman.

Mr. BILBRAY. OK. I am just asking, do think it is fair that we are giving ethanol priority for mileage?

Mr. RUSH. Regular order, Mr. Chairman.

Mr. COOPER. Well, clearly, if you produce a flexible-fuel vehicle, you get to assume that it always runs on the flexible fuel, which is a tremendous benefit under the standard.

Mr. BILBRAY. Mr. Chairman, let me clarify, we are not talking flexible fuel.

Mr. RUSH. Regular order, Mr. Chairman.

Mr. WHITFIELD. Mr. Rush, I am going to let these two continue their explanation.

Mr. BILBRAY. I ask unanimous consent——

Mr. WHITFIELD. Hold it a minute.

Now, what you were saying?

Mr. BILBRAY. I would ask for unanimous consent for 1 more minute, please.

Mr. WHITFIELD. All right. We have a unanimous consent request for one additional minute.

Mr. BILBRAY. Sir, you have to understand, I am not talking——

Mr. WHITFIELD. Wait a minute, Mr. Bilbray.

Mr. RUSH. Mr. Chairman, I don't object, but let's make it 1 minute. This has been back and forth for an enormous amount the time.

Mr. WHITFIELD. All right.

Mr. Bilbray has 1 minute, and Dr. Cooper——

Mr. BILBRAY. Mr. Cooper, I was trying to clarify. We are not talking flex fuel. We are talking every automobile that burns gasoline is required to have ethanol in its mix. We are trying now to go to second generation, but the laws, the tax laws, the mandates and everything else do not give next-generation fuels the same tax breaks that corn ethanol is getting today. Do you think we should continue to maintain the subsidy for first generation, which you and I know was always supposed to be abandoned and moved to two, do you think we should abandon that system we have now and allow second generation the same tax breaks and same opportunities to replace first generation?

Mr. COOPER. The Consumer Federation has in fact supported and underscored the importance of the second generation. So I am perfectly happy with that approach. We believe that the second generation will produce a much more environmental——

Mr. BILBRAY. Even though they don't get the tax cuts now?

Mr. COOPER. Well, there are lots of things we would fix in the tax law, make no mistake about it.

Mr. WHITFIELD. OK, time has expired.

And Dr. Cooper, you and Mr. Bilbray can meet outside and finish this discussion if you would like.

Mr. COOPER. He believes as strongly as I do.

Mr. WHITFIELD. I know. And I think you agreed to provide us some additional information and the committee will get back for those of you who had committed to provide additional information.

So this concludes this hearing. And the record will remain open for 10 days for additional materials and statements.

And with that, we thank you very much for your time, for the information that you provided and look forward to seeing all of you again soon.

The hearing is adjourned.

[Whereupon, at 12:01 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Statement of Fred Upton
Subcommittee On Energy and Commerce
The American Energy Initiative

Imagine if we could create jobs, reduce the price of energy, make America less vulnerable to foreign nations, and increase federal revenues all in one fell swoop. If ever there was a win-win policy in Washington, that would be it.

The truth is, we don't have to imagine. There is a policy direction available to us right now that meets all these criteria – it would be to increase domestic production of oil and natural gas in the Gulf of Mexico.

Today we kick off our hearing series on the American Energy Initiative – an ongoing, multi-part effort to stop government policies that are driving up gas prices; expand American energy production to lower costs and create more jobs; and promote an all-of-the-above strategy to increase all forms of American energy. And I can think of no topic better to begin this discussion that energy production in the Gulf.

First, increasing domestic production is a win for jobs. And not just any jobs, but high-paying energy industry jobs – the kind that would be dream come true for many residents in the Gulf region who remain unemployed with fewer opportunities because a key industry has been shut down. Today we will hear about how many jobs were lost as a result of the moratorium in the Gulf and how many more jobs would exist today if it had never been imposed. And these figures are just the start because they only calculate the jobs involving already-leased parcels in the Gulf awaiting drilling permits. This is just a hint at the energy industry job growth this nation could enjoy if we were to start leasing the many energy-rich offshore and onshore areas that are currently off limits.

Now, coming from Southwestern Michigan I don't have a lot of first-hand knowledge about communities that rely on oil and gas industry jobs, but I do know about communities that rely on manufacturing jobs. And I have seen the reverberations throughout local economies when manufacturers have to lay people off or shut down entirely. The economic pain goes well beyond those line workers directly impacted to their families and to the employees of all the other businesses that depended on that factory. It is the same in Gulf communities that are home to energy companies. For every energy industry worker, there are several others whose jobs depend on him or her.

Domestic production is also a win for energy prices. Higher supplies mean lower prices – this is basic economics. And given the turmoil in Libya and elsewhere in the Middle East, it is important to remember that every barrel produced in America and other stable countries like Canada acts as a calming influence that dampens fluctuations caused by reliance on unstable sources of supply. Not to mention the fact that America will be less reliant on – and less vulnerable to – the whims of nations that don't always have our best interests at heart.

And finally, let us not forget that in addition to more jobs, lower gas prices, and greater national security, increased domestic production would increase revenues to the Federal Treasury. Oil and gas producers on federal lands and offshore areas pay royalties on each barrel of oil and cubic foot of natural gas produced – not to mention federal income taxes on the profits.

It's not just a win-win – what we have here is a win-win-win-win. We kicked off the American Energy Initiative to identify policies – like the ones we're exploring today – that can help remove roadblocks to production, bring down prices, create jobs, and advance the all-of-the-above energy strategy that we know we need. Today's hearing is an important part of that effort.

Statement of Congressman Gene Green
House Committee on Energy and Commerce
Subcommittee on Energy and Power
The American Energy Initiative
March 17, 2011

Following the BP oil spill in the Gulf of Mexico, many questions about safety were asked regarding the future of offshore oil and gas production. The resulting investigations into this accident and the safety precautions that the federal government has put in place in recent months have given us some of these answers. I was actively involved in pressing the Administration to lift both the shallow water and deep water offshore drilling moratoriums having stressed the importance of safe offshore energy production to our Nation's energy security and our Gulf Coast economy.

These following bipartisan letters are in addition to many meetings with Interior Secretary Salazar and Bureau of Ocean Energy Management, Regulation Enforcement (BOEMRE) Director Michael Bromwich. I will continue to press upon the Administration on the importance of our offshore resources. We cannot lose the thousands of jobs directly connected to this drilling that are so vital to our Gulf Coast economy.

May 6, 2010: The Administration first applied a moratorium to offshore drilling permits.
Our office responded by leading a letter to Department of Interior Secretary Kenneth Salazar with Rep. Charles Boustany (R-LA-07) and 54 of our colleagues on May 21 that expressed our support for an in-depth investigation of what happened at the deepwater Macondo well, while also voicing our concern over the effects a unilateral drilling moratorium would have on our offshore oil and gas development as these wells involve very different risks and challenges than deepwater wells.

May 28, 2010: The President responded to our letter by lifting the moratorium on shallow water drilling.

June 24, 2010: The ban on deepwater drilling continues.
Our office and Rep. Kevin Brady (R-TX-08) led a letter with 22 of our colleagues, again to Secretary Salazar, which outlined an interim solution. We proposed allowing low-risk development and appraisal wells to be produced while the Department of Interior continued its assessment on deepwater exploratory wells. These types of wells offer the reassurance of much smaller, minimal risk.

July 5, 2010: Gulf cleanup progresses, moratorium continues.
Our office again led a bipartisan letter with Rep. Brady (R-TX-08) and Rep. Steve Scalise (R-LA-01) and 32 other Members of Congress to the President urging for the immediate lifting of the deepwater drilling moratorium after a federal judge struck down the first moratorium and a second was put in its place.

August 31, 2010: After a static kill of the BP well, still no progress in new drilling permits.
Rep. Boustany (R-LA-07) and I again led a letter to Secretary Salazar, this time co-signed by 37 of our colleagues from across the country, addressing the slow rate of shallow water permits being issued. Before the Deepwater Horizon disaster, new shallow water well permits were issued at a rate of 10-15 per week. In the 6 months since the oil spill, only 21 new shallow water well permits have been issued.

October 12, 2010: The Administration lifts the moratorium on deepwater drilling.

February 22, 2011: No permits have been issued for deepwater activities that were subject to the moratorium.
Our office leads a bipartisan letter of Energy and Commerce Members requesting an oversight and investigations hearing in the Energy and Commerce Committee to examine the slow issuance of permits. As of February 22, BOEM had only issued 32 permits for new shallow water wells and has issued no permits for deepwater activities that were subject to the moratorium.

February 28, 2011: The Administration issues the first new well permit in deepwater for activities that were subject to the moratorium.

March 3, 2011: Our office leads a bipartisan group of 79 Members of Congress in introducing a resolution that calls on the Sec. of Interior to (A) streamline the review and appropriate approval of applications for both shallow and deepwater drilling permits in the Outer Continental Shelf; **(B)** take immediate action to provide the shallow and deepwater industry with a completed sample application which meets all of the new safety and environmental regulations for use as a template; **(C)** provide written guidance and clarification to applicants regarding new safety requirements; and **(D)** provide permit applicants with timely and detailed explanations on any areas of a permit which do not satisfy new requirements.

I will continue to work with the Administration to see that these permits are issued. We must get our offshore workers and the industries tied to them back to work.

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