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IPEC - Houston
November 7, 2001

There is an enormous need for a comprehensive national energy policy. Today I want to touch on some areas that I hope will strengthen everyone's resolve to encourage a strong comprehensive national energy policy.

Before I get into these subject areas let me briefly touch on the impact of the oil and gas industry in New Mexico. Oil and gas has been commercially produced in our state since the summer of 1922 and has grown to the point that New Mexico is the 2nd largest producer of natural gas, 2nd in reserves, 5th in the production of crude oil, and 4th in reserves in the contiguous United States. Eight of New Mexico's counties have oil and/or natural gas production. These are Chaves, Eddy, Lea and Roosevelt in the Southeast and McKinley, Rio Arriba, San Juan and Sandoval in the northwest. In 2000 natural gas production in New Mexico was 1.6 Tcf and crude oil production was 65.4 million bbls. There were over 900 new wells drilled in New Mexico in 2000, 66% were natural gas wells and 34% oil wells. The total annual revenue produced by the oil and gas industry for the state of New Mexico exceeds \$1.3 billion. Our industry is the largest civilian employer in New Mexico with over 23,000 jobs directly related to oil and gas production, refining, processing, marketing, transportation, and field services. In FY 99, total oil and gas revenue, as a share of the general fund was 18.6%. The industry funds over 80% of all school capital investment through its payment to the Permanent Fund, which is administered by the New Mexico State Land Office. The Permanent

IPEC - November 7, 2001

Funds distributes money to 22 beneficiaries including colleges, vocational institutes, and other public services in every county of New Mexico.

15 years ago, my friend Danny Conklin had this to say during his first interview as Chairman of IPAA: I hope we will be able to convince Congress that a healthy domestic industry is an asset, and that we must have a national energy policy for it to be an asset...I hope we can look to the future and develop a game plan that will benefit the independents and this country...We need to create a business climate that the domestic petroleum industry can operate under. Whether it be oil or gas, if the climate is there, the exploration for those products will come along. That was 15 years ago, and I'm afraid we have not made much progress.

Let me now move briefly to the domestic oil and gas Industry. I believe that the domestic oil and gas industry is the backbone of our economy and is truly a matter of national security. America must develop better policies to enhance and maintain domestic oil and natural gas exploration and production, we need both. We must begin to treat domestic oil and gas production as a critical element of national economic security. To do this, at the federal level we must direct our efforts at the two areas where they will have the greatest effect: access to capital, and access to domestic natural resources from federally controlled lands and waters. It is important to understand that a large aspect of access to natural resources involves opening that which is now not available, and halting the trend of further roadblocks and moratoriums

of western lands.

Energy Secretary Spencer Abraham last month released a Department of Energy study showing that access to nearly 68% of natural gas resources in the Green River Basin in the Rockies is closed or significantly restricted. From a practical permitting standpoint there is severe limitation to access.

We must also deal with permitting limitations and other indirect actions of federal agencies. Because these are federal lands, it is necessary that the federal agencies issue permits for exploration and production activities. The National Environmental Protection Act or NEPA can be used to create effective, environmentally sound management plans, or it can be used to delay and deny access. The total time for oil and gas drilling, from the first idea until the first well was spudded, averaged 12-36 months for federally managed lands, but only 2-4 months for private lands.

NEPA is only one of many laws that is involved, add the Endangered Species Act, the Clean Water Act, Clean Air Act and the actions of the Fish and Wildlife Service and the EPA and pretty soon you have a grim picture of the future of our industry. The time has come to put to bed the myth that development and the environment are not compatible or are diametrically opposed. Our industry has shown we can develop valuable natural resources while protecting the important wildlife and environmental values that exist, we have proven that in Prudhoe Bay where the caribou has coexisted with the oil and gas

industry for 30 years and has grown from 3,000 animals to 20,000 animals.

These federal policies toward government-controlled lands are a linchpin to meeting future natural gas demand. They must be modified to assure that the benefits of supplying this clean burning essential fuel are fully considered.

I propose a simple litmus test: 1) is it based on sound science; 2) does it make common sense; and 3) is it environmentally sound and sensitive?

Each year when a freeze hits the state of Florida we hear the price of grapefruit will increase significantly because a large amount of the supply was destroyed and as such demand will exceed supply. We all accept that reality and move on, so why is it so hard to understand that is exactly where we are today with natural gas, and why we are in the middle of an “energy challenge.” A second grader will tell you that if anything is in short supply, make more of it.

In many respects, the energy challenge facing the United States is a product of the country's success. The rapid expansion of the U.S. economy, a growing standard of living and increasing population have all contributed to an increase in energy demand. Although improvements have been made in energy efficiency, these improvements have not kept pace with rising energy demand. Contributing to the problem is an outdated energy infrastructure. Aging power plants, electrical transmission lines,

pipelines and refineries are in need of renovation and expansion.

The proposed National Energy Policy is based on three basic ideas. These ideas include the creation of a long-term energy strategy for the United States, advancing environmentally friendly technologies to increase energy supplies and efficiency and raising peoples' standard of living by integrating U.S. energy, environmental and economic policies.

So, what is a good energy policy? What goals does such a policy pursue, and what actions make it good?

Goals are simple. A proper energy policy pursues security of energy supply in service to national economic growth and military defense. That's all.

The oil and gas industry has a role to play in providing solutions. Our goal is to assist in the development of a reliable, affordable and environmentally sound energy supply for the United States. Key principles of any energy policy should include:

§ **Environmental Responsibility** - Industry believes that any energy policy must be environmentally responsible. A national energy policy should empower companies to unleash technical innovation and develop new ways to reduce emissions and produce cleaner fuels. Policy should dictate

an environmentally positive outcome, but not prescribe the steps or formulas' companies must use to reach that outcome.

§ **Diversity of Supply** - The U.S. energy security depends on energy from a wide range of sources and locations, both foreign and domestic. Today's economy is global and the U.S. energy policy should mirror that reality and encourage global and domestic exploration and production. We should not let these inevitabilities compromise domestic capacities to produce and process hydrocarbons. Good energy policy adapts itself to market evolution, yet prefers domestic to imported supply for mostly economic and national security reasons.

§ **Free Markets** - A good energy policy lets the market work and should be firmly rooted in free market principles. It does not interfere with fuel prices, which naturally rise and fall over time. It does not make fuel choices for consumers or try to influence consumption levels of specific fuels or of energy in general. A competitive free market is the quickest and most effective way to balance the energy supply and demand equation.

The goals of an energy policy do not need the lattice of environmental qualification that obscures official attention to energy matters these days. The economy has tuned itself to economic values. Energy initiatives that serve national economic initiatives and

comply with a non-obstructionist environmental regulation strike the best possible balance between economic reward and environmental risk. Overly zealous environmental preservation has led to a situation that is out of balance with the appropriate principles of multiple use. We comprehend that some circumstances rightfully prevent oil and gas industry in certain areas, but come on – Florida -- Farmington -- southeastern New Mexico and the Aplomado Falcon. These stories would be funny except that it is continuous. This and many more horror stories deftly illustrate the wide-range issues that federal lessees wrangle with every single day. There is no end to the foot dragging, delays, threats, overly restrictive stipulations and conditions of approval, loss of revenues, absence of decision-making, unreasonable demands, uncertainty, and lack of administration. Industry is frustrated, discouraged, and beginning to look elsewhere to produce oil and gas. Witness the major oil companies that have sold virtually all of their onshore properties and moved offshore overseas to explore for and produce oil and gas. It is simply too expensive, time-consuming and difficult to operate on federal lands in the United States.

The federal government must make federal lands available for oil, gas and coal leasing. Undeveloped resources contribute nothing to energy supply and nothing to state, regional and national economics. We must treat refining as an essential element of supply security. Because crude oil has little value as an energy source until it is refined, the ability of refiners to process crude oil into products required in the U.S. market should receive priority. Because of environmental mandates, costs and obstructions, a

new refinery has not been constructed in the U.S. in the past 25 years. Energy and environmental policies should complement and accommodate one another. The heretofore under acknowledged reality is that they can.

Still wondering why we need an energy policy? Let's take a global look. Progress on international trade has seldom been more important than it is in the confused aftermath of the September 11 terrorist attacks in New York, Washington, DC, and Pennsylvania. The attacks aggravated a worldwide economic slowdown. Evidence builds that the world is in recession. In response to the attacks, the US, the UK, and other allies have begun what promises to be a long and expensive war. Prompt economic recovery is crucial to that effort.

At this moment, nothing would be better for the US and worldwide economies than strong international action on behalf of trade. The war on terrorism thus should give economic priorities new urgency and dissipate the fog that surrounded trade issues before September 11.

The overarching goal, given new focus by the war against a demonstrated global threat, must be restoration of economic health. The arguments shouldn't be about whether trade should increase; they should be about how to make the increase occur. And the US, as the leader of the war on terrorism, should invigorate its leadership of this discussion.

Action on energy can strengthen or weaken US leverage in that crucial role. US energy policy demonstrates US commitment to economic growth. It's that simple. If the US government wants governments of other countries to behave responsibly on trade in support of global economic health, it should behave responsibly on energy in support of the US economy.

In US energy politics, of course, the central issue is leasing of the Arctic National Wildlife Refuge coastal plain. The policy reality is that Congress can do much to improve US energy conditions without approving ANWR leasing. For starters, it can and should fix taxation and other impediments to domestic production of oil and gas.

It should also, however, approve oil and gas leasing of the ANWR coastal plain – and not just because of the potential energy supply. Beyond its great geologic promise, ANWR symbolizes the US approach to development of natural resources. Until now, the federal government has allowed environmentalism increasingly to block development -- not just in ANWR and not just of hydrocarbon resources. Too often, the obstructionism grounds itself in environmentalist exaggeration – and in ANWR's case outright lies. It dominates policy-making nevertheless. And by limiting development of natural resources, it limits economic growth.

With ANWR, there is no sound environmental case against leasing and drilling of the relatively tiny area of industry interest. That area is not pristine, as leasing opponents claim. The industry can drill and produce there without causing significant or lasting damage. Yet the resource lies unevaluated, the tremendous economic potential thought to exist there unrealized in deference to an environmental agenda that measures success in terms of the economic activity it prevents.

Well, it is time to ask the question: Is the US serious enough about economic growth to adjust this self-sacrificial political formula, or is it not?

Terrorist attacks are a very real threat to US energy infrastructure. Efforts to protect critical infrastructure should be given real priority and the US government should help oil and gas companies take protective measures.

Given that terrorists have already shown the ability to turn our economic infrastructure into weapons to be used against the American people, we should take the threat of energy infrastructure terrorism seriously.

While the risk to most energy infrastructure can be dealt with adequately, attacks on some components could be far-reaching, causing serious disruptions locally, regionally, or even nationally. There could be widespread suffering and environmental damage, depending on the scale of any such attacks.

Analyzing the threat to the 800-mile Trans-Alaska Pipeline, which ships oil from the North Slope, the serious damage to the line would have a major impact on the US economy and energy supply. It has been noted that a single gunshot in October caused 285,000 gallons of crude to spill. Shut it down with a bomb and we have a real energy crisis, particularly in California.

Also, any shutdown of a major interstate natural gas pipeline supplying California would have a significant impact. The impact could be particularly severe if there were a coordinated series of pipeline attacks.

An attack on an oil tanker at a major terminal could easily shut a port down and disrupt energy flows, jobs and the movement of goods. Despite advances in safety, oil tankers are not designed to withstand even a rudimentary terrorist attack.

As for refineries, a terrorist attack could turn the facility itself into a weapon of mass destruction. The release of hazardous materials following an attack would affect surrounding areas much like a chemical weapon attack.

The government should provide incentives, such as tax credits and low-cost financing, for companies to strengthen critical infrastructure against attack.

Since August the gas rig count has fallen from 1,060 to 876. This boom-bust cycle results in wild and harmful price volatility. The last 22 months are an example. In that period prices have increased 350% - from \$2.40/mcf to \$9.00/mcf - and fallen again to \$2.40/mcf. In the last ten days it has ranged from \$2.33 to \$3.10 where it currently stands.

Without proper drilling incentives, we are in for more of the same for the next 6-10 years, where there is hope for a new pipeline to the Alaskan North Slope to bring in a significant new source of supply.

Volatile natural gas prices disrupt the economy creating uncertainty for industrial, commercial and residential users. The new and important wrinkle is that the disruption will be substantially greater than in the past. In the past, gas price volatility affected primarily industrial and commercial users who used gas as a boiler fuel, or residential users who used it to heat their homes. In the future, in addition to these sectors, the volatility will feed through the electricity grid into every corner of economic activity.

Electricity generation is increasingly dependent on natural gas as a primary fuel. In turn, the entire economy is increasingly dependent on electricity as an energy source. Of new generation planned for the next seven years, approximately 85% is expected to be gas fired. Gas fired generators will increase from 14% to approximately 31% of the nation's generating facilities. Twenty-two gigawatts of new gas-fired generating

capacity was added in 2000 (an 18% increase from the 1999 level). Forty gigawatts of gas-fired capacity are estimated by various sources to be added in each year of 2001 and 2002.

In closing, if we are to provide the country with the domestic energy it deserves, we need to create national policies that allow environmentally sound development of these resources. No one can expect to climb out of this “energy challenge” overnight, it took us 20 years to get here, but we need to start the process. We cannot conserve our way out of this “energy challenge.” A balanced approach of conservation measures, increased exploration, production and access to government controlled lands coupled with additional refinery capacity and new technological advancements will go a long way toward providing a reliable, affordable and environmentally sound energy supply for the United States.