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Ms. Renee Orr, 5-Year Program Manager
Minerals Management Service
381 Elden Street, (MS-4010)
Herndon, VA 20170

Re: Minerals Management Service (MMS) Request for Comments on the Draft Proposed Program for the Outer Continental Shelf (OCS) Oil and Gas Leasing program for 2007 – 2012. 71 *Federal Register* 7064-7068 (February 10, 2006)

Dear Ms. Orr:

The American Petroleum Institute (API) appreciates the opportunity to comment on the Minerals Management Service (MMS) draft proposed 5-year Outer Continental Shelf (OCS) Oil and Gas leasing program for 2007-2012. API represents more than 400 members companies involved in all aspects of the oil and natural gas industry, including offshore exploration and production and therefore has a strong and direct interest in the development of the offshore leasing program.

The Draft Proposed Program Will Not Adequately Meet America's Energy Needs

Although this draft proposed program is a step forward from the present 5 year plan, we urge the MMS to expand the program further. As currently drafted, this program is inadequate and unlikely to yield the future energy supplies needed to keep America's economy growing and to enhance our energy security.

The MMS has only asked for comments on lease sales to be held in 7 planning areas. Although some areas which are currently under Presidential withdrawal or Congressional moratoria are included in MMS' draft, others are not. MMS has unnecessarily limited the scope of its draft. Instead, a much more expansive program should be considered and the appropriate study given to ALL OCS areas to enable MMS to move quickly should an area's status change.

We appreciate that there are 21 OCS lease sales being planned for this 5-year time period. And, API applauds MMS for including areas such as the North Aleutian Basin, the area south of the original Sale 181, some of the areas not previously offered in the earlier Sale 181 as well as the study area off the coast of Virginia. But, given the comments offered in response to MMS' earlier call for information and scoping notice, we believe MMS has support for a much more expansive leasing program than proposed

In response to MMS' scoping notice published in August 2005, we understand the agency received almost 11,000 comments – which were overwhelmingly supportive of offshore oil and gas development. This is significant because almost 80% of those comments favored increasing

domestic supplies with increased offshore development. Further, MMS received comments from every state and from a very diverse set of interests – from seniors to small businesses to major manufacturers and farmers. Given this strong interest and support, it is premature to narrow the scope of the draft proposed plan.

MMS' decision to limit its focus to only a few OCS areas at this point in the process – rather than continuing to evaluate **all** planning areas — fails to consider the full resource potential of the OCS and future US energy needs. Instead, MMS should continue to fully consider all OCS areas (including preparing Environmental Impact Statements). That way, if MMS in its final plan focuses only on sales in areas not subject to moratoria/withdrawal, should an area's status change, essential preparatory work will have been completed enabling that area to be offered for leasing more quickly.

That is why API is disappointed that the MMS did not chose to take this opportunity to propose an expansive program that includes ALL OCS areas and especially the following:

- MMS should include all areas from the Sale 181 as initially defined, including the "stovepipe" and the full "bulge";
- MMS should add other areas in the Eastern Gulf of Mexico which are expected to hold significant resources;
- MMS should expand the acreage offered for lease in the Beaufort and Chukchi Sea and Bristol Bay in Alaska; and
- MMS should initiate a dialogue with other states in a manner similar to Virginia for possible leasing off their coasts, such as Georgia and the Carolinas in the South Atlantic region.

MMS has ignored vital future energy supplies by not including the Sale 181 area commonly known as the "stovepipe" and by limiting its proposal to only 2/3 of the original Sale 181 area.

The draft proposed 5-year plan adds a mere 2 million acres out of 5.9 acres of the original proposed Sale 181 area. Yet, there is a rich history of discovery in the area adjacent to the "stovepipe" suggests this area could yield significant quantities of natural gas that the country desperately needs. And, exploration on leases sold within the Sale 181 area itself has been highly successful. Of the 12 wells drilled in the Sale 181 area so far, 50% have yielded commercially producible hydrocarbons.

Further, we are deeply disturbed by MMS's apparent decision to limit development within 100 miles of Florida's coast even though these federal submerged lands belong to all Americans. This decision ignores the long and excellent environmental record established by offshore oil and gas producers. The stellar performance by the thousands of offshore production platforms during last season's unprecedented hurricanes more than amply demonstrates the industry' emphasis on, and commitment to, environmental protection. This record was explicitly recognized by Secretary Norton in Congressional testimony last fall when she stated that:

> "There is good news regarding offshore operations. Katrina and Rita – both reaching Category 5 strength as they spun through the Gulf and the heart of the offshore energy production – caused no loss of life among offshore industry personnel or significant spills from any offshore wells on the Outer Continental Shelf (OCS). This bears repeating: We

faced down two of the most devastating hurricanes ever to hit the Gulf of Mexico without one significant spill from any offshore well on the Outer Continental Shelf".

Existing production from federal waters within 100 miles of Florida in 2003 was 86.8 million barrels of oil and 572.0 billion cubic feet (Bcf) of natural gas. And, these lands are expected to hold resources that Florida itself will need. According to the latest available data from EIA, Florida ranks third in terms of petroleum consumption – following California and Texas and within the top ten states in terms of natural gas consumption. Over 40% of the electricity generated in Florida is generated by natural gas. And, one of Florida's most important industries, travel and tourism, depends on oil and gas to keep growing. Domestic and international visitors traveling to and within Florida spent over $60 billion in 2004 – about one-tenth of all visitors' spending in the United States. Energy consumption by travelers and travel-related comprised 9% of total direct travel expenditures in Florida. In other words, the energy costs of serving these visitors amounted to 9 cents of every dollar visitors spent in Florida.

And, energy is essential to others in Florida. In comments filed on MMS' earlier scoping notice, the Associated Industries of Florida (which represents 10,000 members ranging from small businesses to Fortune 500 companies) stated that "our members understand that energy – oil and natural gas – is critical to our way of life. Without sufficient energy resources our homes will not be heated or cooled; consumer products will not be designed or manufactured; our cars will not be able to take us to work or play; our trucks, railroads, ships or planes will not be able to deliver us or our goods to the marketplace; and agriculture will not be able to sustain itself".

The OCS is Intended to Support Energy Development

The OCS is intended to meet many uses that sustain the nation, including minerals development, fishing, shipping and other uses. However, the Outer Continental Shelf Lands Act (OCSLA) explicitly recognizes the importance of OCS oil and natural gas production. The OCSLA declares that it is "…the policy of the United States that….the Outer Continental Shelf is 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, in a manner which is consistent with the maintenance of competition and other national needs." Further, amendments to the OCSLA in 1978 found that "… increasing reliance on imported oil is not inevitable, but is rather subject to significant reduction by increasing the development of domestic sources of energy supplies…"

The OCS Already Provides Essential Energy

The OCS is a vital part of the nation's energy infrastructure. More than 45,000 people are directly employed by OCS operations. There are about 4,000 OCS production facilities and 33,000 miles of pipelines. The Gulf of Mexico OCS has been producing oil and natural gas since the 1950s and recent advances in exploration and production technologies have opened new frontiers in the deepwater Gulf of Mexico. Deepwater oil and gas production has been especially important as an offset to declining production from older, shallower OCS wells.

Virtually all of the oil and natural gas produced from the OCS is from the Central and Western sections of the Gulf of Mexico. In 2004 (the latest year for statistics), the Gulf of Mexico OCS contributed 27% of the oil produced in the US and 21% of domestic natural gas production. The Central and Western Gulf of Mexico OCS has played a key role in supplying growing demand for clean-burning natural gas.

MMS itself has recognized deepwater oil and natural gas development in the Gulf of Mexico as "a workhorse for U.S. domestic oil and gas production." The 1.5 million barrels per day (MMB/D) of oil produced from the Central and Western Gulf of Mexico OCS is equivalent to current U.S. imports from Saudi Arabia. The 4.4 trillion cubic feet (Tcf**)** produced annually from the Central and Western Gulf of Mexico OCS is enough natural gas to meet more than 70% of the electric power sector's consumption of natural gas.

Substantial Resources on the OCS Are Waiting to be Developed

Limits on development (through Congressional and administrative moratoria) prevent exploration and production in most of the Eastern Gulf of Mexico and the entire Atlantic and Pacific OCS. That means almost 90% of the OCS acreage off the lower 48 states is "off limits" to energy development.

According to MMS' OCS Inventory report to Congress (February 2006), there are about 288 Tcf of natural gas and 59 billion barrels of oil yet to be discovered on the OCS off the lower 48 states. This is enough oil to maintain current oil production (based on 2004 data) for 105 years and current natural gas production for 71 years. Put another way, that is enough oil to produce gasoline for 132 million cars and heating oil for 54 million homes for 15 years. It is enough oil to replace current imports from the Persian Gulf for 59 years. And, that is enough natural gas to heat 72 million homes for 60 years, OR to supply current industrial and commercial needs for 28 years OR to supply current electricity generating needs for 53 years.

And, that is before the Alaska OCS is considered with additional resources of 132 Tcf of natural gas and over 26 billion barrels of oil. Thus, the undiscovered resources on the federal OCS that could be recovered with today's technology is estimated at 420 Tcf of natural gas and almost 86 billion barrels of oil. For perspective, that is equivalent to three times the oil resources of Canada and Mexico combined and almost 6 times the natural gas resources of these two countries.

Yet, these estimates may be conservative since these areas are largely unexplored. And, these estimates would benefit from the use of new seismic and computer modeling technology. Generally, the more an area is explored, the more its resource estimates grow.

For example, the US Geological Survey (USGS) estimates of undiscovered oil resources for the Central and Western Gulf of Mexico increased from 6.32 billion barrels of oil in 1995 to 33.39 billion barrels of oil in 2003 – an increase of over 400%. And, USGS estimates of undiscovered natural gas resources in the Central and Western Gulf of Mexico increased from 88.1 Tcf to 180.2 Tcf over the same time period – an increase of 104%.

Oil and Natural Gas Keep America's Economy Growing

Oil provides 97% of America's transportation fuel. Manufacturers and farmers alike depend on petroleum to get their products to market. Clean-burning natural gas provides over 20% of total US energy – generating about 23% of electric power (EIA 2004 data), supplying heat to over 60 million households and providing over 40% of all primary energy for industrial use. It is a heat and power source for major industries including iron and steel, glass, food processing, paper, metals fabrication, textiles, rubber and plastics. It is an essential building block for the chemical industry and a feedstock for making fertilizer. Natural gas and oil are used in many products that

we use daily – ranging from clothing to computers, medicines, sports equipment, CDs, cosmetics, hospital equipment, carpets, insulation and lightweight parts for cars and airplanes to name a few.

Many key sectors of our economy depend on reliable and affordable oil and gas supplies. In commenting on the earlier scoping notice:

- The U.S. Chamber of Commerce, representing more than 3 million businesses of all sizes and in all parts of the country, stressed that its members "…depend on an affordable and reliable energy supply to support all facets of their businesses – fuel their vehicles, power their factories, and heat and cool their buildings." As a result, the Chamber urged "the MMS to use the 5-Year program process to increase domestic production of OCS resources."
- The Fertilizer Institute pointed out that "…fertilizer manufacturers and our nation's food security are increasingly jeopardized when our nation's energy reliability is compromised by insufficient natural gas and power supplies." They urged that DOI "do everything in its power to further the development of America's natural gas resources" citing concerns about the "… destruction of important American industries, the loss of countless jobs and higher prices across the entire American economy."
- Similarly, the Agriculture Energy Alliance (representing 72 growers and agribusinesses) urged MMS "to adopt as expansive a 5-year leasing program as possible."
- The Associated Industries of Florida pointed out that "If America doesn't look to expanding exploration and drilling in the OCS, then America will unnecessarily pay a high price and incur a heavy burden."
- The Air Transport Association stated that, "Airlines are significant consumers of refined crude oil. We anticipate that U.S. airlines will consume 19 billion gallons of fuel in their worldwide operations this year. Maintaining existing oil production and developing new resources to supply our increasing need for refined product is indispensable to the economic health of the U.S. airline industry and our ability to provide the service that passengers and shippers demand….Nevertheless, conservation and efficiency efforts in such a fuel intensive industry as the airline industry have their limitations. New sources of petroleum must be found."
- And, the National Association of Manufacturers, "The US has an opportunity to improve our energy situation and continue to support economic growth, while providing consumers and businesses with the essential energy that they need. Let's seize this chance to ensure a brighter future for all Americans by adopting an expansive OCS leasing program."

Energy is essential to a variety of industries. For example, energy fuels America's travel and tourism industry. More than 1.2 billion trips (in 2004) were taken by domestic and international travelers in the U.S. They spent almost $600 billion and directly supported 7.3 million jobs for the U.S. economy. The energy costs of serving these visitors amounted to nearly 14 cents for every dollar visitors spent.

Offshore platforms themselves even play a valuable role. They attract fish, acting as a vertical reef. An MMS study in 2002 assessed the environmental, recreational and economic benefits of offshore platforms concluding that:

- 22% of recreational fishing trips and 94% of dive trips in the Gulf (from Alabama to Texas) were taken within 300 feet of an oil or gas structure or an artificial reef created from these structures;
- $172.9 million was spent on trip-related costs and $640 million on equipment; and
- These expenditures led to $324.6 million in additional economic output in coastal counties in the Gulf region supporting more than 5,500 jobs.

Without new access, the OCS role in providing energy will not last

Energy demand is rising. Despite expected energy efficiency improvements of 37% and renewable energy supply increases of 57%, the US Energy Information Administration (EIA) forecasts that, by 2030, petroleum demand will increase by 34% and natural gas demand by 20%. EIA also estimates that oil and natural gas will provide 60% of the energy consumed in 2030**.** MMS and DOE forecast that without expanded access beyond the Central and Western Gulf of Mexico, the growth in deepwater production will not be able to offset declines in shallow water production for more than a few years**.** The MMS forecast for 2004 through 2013 shows that there will be declining production of natural gas in 2006 and for oil in 2007, thus illustrating the sense of urgency for the industry to acquire access to new supply.

Failure to provide needed access comes at a high cost

In the past two years, higher energy prices have slowed US economic growth by .5 to 1.0% (based on pre-hurricane prices). More than 2.8 million US manufacturing jobs have been lost since 2000. Since 2002, 36% of the US fertilizer industry – which depends on natural gas – has been shut down or mothballed. Farmers paid $6 billion more for energy in 2003 and 2004. The US chemical industry has been especially hard hit by high natural gas prices since they rely on natural gas as a feedstock. Their natural gas costs increased by $10 billion since 2003. And, $40 billion in business has been lost to overseas competitors who pay less for natural gas. Chemical companies closed 70 facilities in the United States in 2004 and have tagged at least 40 more for shutdown. Of the 120 chemical plants being built around the world with price tags of $1 billion or more, only one is in the United States.

Conclusion

Oil and gas demand is rising in the United States and throughout the world. If America's economy is to continue to grow and if we are to enhance our energy security, we must develop energy supplies here in America.

Yet, some continue to oppose development of the large oil and gas resources off our coasts – often out of unwarranted fears of adverse environmental impacts. This view ignores the fact that oil and clean-burning natural gas can be produced while also protecting the environment thanks to the use of state-of-the-art technology. Hurricanes Katrina and Rita demonstrated the level of environmental protection built into offshore operations. Almost 3000 offshore platforms were in the direct path of the hurricanes. Some experienced 5-6 hours of sustained winds of 170 miles per hour (mph) winds with gusts over 200 mph and huge waves. However, production was shut down, platforms were evacuated and production restarted without any loss of life and without any significant spills.

That is why API strongly urges MMS to adopt a more expansive proposed OCS program. All OCS areas, regardless of their moratoria status, should be fully assessed for their resource

potential and environmental assessments performed. MMS may ultimately have to adopt a narrower program but now is not the time to limit the options. And, in particular, MMS should apply the model it is proposing for Virginia to other coastal states.

API endorses the comments offered by the Alaska Oil and Gas Association. And, in summary, we urge MMS to:

- Include all areas from the Sale 181 as initially defined, including the "stovepipe" and the full "bulge";
- Add other areas in the Eastern Gulf of Mexico which are expected to hold significant resources;
- Expand the acreage offered for lease in the Beaufort and Chukchi Sea and Bristol Bay in Alaska; and
- Initiate a dialogue with other states in a manner similar to Virginia for possible leasing off their coasts, such as Georgia and the Carolinas in the South Atlantic region.

Again, we appreciate the opportunity to comment on the draft proposed plan. If you have any questions or need additional information, please contact Lisa Flavin at 202 682 8453.

Sincerely,

Lisa D. Flavin