Submitter's Name/Association:_ **William Whitsitt/ Domestic Petroleum Council**
Contact: **William Whitsitt, President**
Email: **wfwhitsitt@aol.com**
Phone: **(202) 742 4300**

Provide an executive summary of your proposal(s). ***Do not exceed the remainder of this page.***

Priority natural gas supply initiatives should include adoption of legislation to:

- Put in place a **process of opening offshore areas** currently under legislated and/or executive moratoria for exploration, development and production – **with a portion of federal revenues (bonuses and royalties)** derived from resulting leasing and production to be **shared with states in proportion to the amount of energy-related activity off their respective coasts**.

- Ensure **adequate funding for mineral resource management**, including environmental and land management planning – including energy project permitting -- within agencies of the Departments of Interior and Agriculture, including specifically the Bureau of Land Management, Minerals Management Service and the U.S. Forest Service. Such funding should carry **with** it **requirements for improved management information reporting** that will better enable evaluation of agency, bureau and office efficiency and effectiveness upon which the need for management and operational improvements may be based.

- **Ensure** that **congressional intent** with respect to potential or proposed regulatory initiatives **in such areas as hydraulic fracturing, stormwater rules, SPCC requirements and permit consideration deadlines** is followed, or clarified if necessary, so as to improve the operation of applicable laws and avoid unintended energy supply consequences of agency actions.

- In the area of tax policy, **allow expensing of geologic and geophysical costs** that are critical to the search for, **and** production of, new natural gas supplies. In addition, **consider new incentive approaches** (such as the "uplift" concept employed in other energy producing countries whereby a greater taxable income deduction is allowed) for spending on activity that is to be encouraged (such as for increased gas exploration or for production, especially related to nonconventional or deep gas formations, etc.)

Additional energy-related provisions of previously considered legislation, especially those of the Conference Agreement on HR 6 (108th Congress) should be approved.

William Whitsitt/ Domestic Petroleum Council

1. Increasing Domestic Natural Gas Supply

How can we increase domestic supplies from on-shore and off-shore resources?

The most important places from which increased domestic natural gas supplies can be produced in the future, for both the near- and long-term, are the offshore areas currently under legislated and/or executive moratoria and the Rocky Mountain region. The potential supply improvements from these areas, with resulting natural gas price benefits to all classes of consumers are well documented in the National Petroleum Council's most recent natural gas study (National Petroleum Council. *Balancing Natural Gas Policy: Fueling the Demands of a Growing Economy.* September 2003.)

For this reason, and recognizing that DPC will support many good ideas pertaining to energy supply being put forward by other organizations with which we cooperate and are in policy alignment, and proposals that have been previously considered and approved at various stages of the legislative process, we have chosen to highlight here several priority initiatives that could have the most significant impact on natural gas supply from the near- to the long-term.

For the offshore a process should be put in place to:

- begin allowing areas currently under legislated and/or executive moratoria to be opened to natural gas exploration, development and production; and,
- provide a share of resulting federal revenues (bonuses and royalties) derived from resulting leasing and production to states in proportion to the amount of energy-related activity off their respective coasts.

Examples of concepts that should be considered as a basis for such an offshore access process include the State Enhanced Authority for Coastal and Offshore Resources (SEACOR) one. Another could be the previously-provided concept of granting increased authority to the President to respond to state interest in offshore energy activity should a complementary offshore revenue sharing program be adopted. A key element of any such concepts should be recognition of legitimate interests and needs of coastal states as they contribute to providing energy for their consumers and the nation.

For all areas, with beneficial effects expected to be seen especially in the Rocky Mountain region:

- Ensure adequate funding for mineral resource management, including environmental and land management planning – including energy project permitting -- within agencies of the Departments of Interior and Agriculture, including specifically the Bureau of Land Management, Minerals Management Service and the U.S. Forest Service.

Such funding should carry with it requirements for improved management information reporting that will better enable evaluation of agency, bureau and office efficiency and effectiveness upon which the need for management and operational improvements may be based.

An example of a recommended management and information reporting program (provided to the BLM and Forest Service previously, but which has been only partially adopted) is attached (Appendix A).

- Ensure that congressional intent with respect to potential or proposed regulatory initiatives in such areas as hydraulic fracturing, stormwater rules, Spill Prevention, Control and Containment requirements, and permit consideration deadlines is followed, or clarified if necessary, so as to improve the operation of applicable laws and avoid unintended energy supply consequences of agency actions.

Additional energy-related provisions of previously considered legislation, especially those of the Conference Agreement on HR 6 (108th Congress) should be approved.

William Whitsitt/ Domestic Petroleum Council

2. Liquefied Natural Gas

What should our expectations be regarding imported LNG as a supply source, and what policies should be considered on LNG terminal siting and safety?

Liquefied Natural Gas (LNG) has an important role to play in supplementing domestic natural gas supplies in the United States. Therefore, as with any energy projects, permitting processes should be such that timely and efficient consideration is encouraged.

Permitting agencies should also be sensitive to, and do everything possible to avoid conflicts (in the Gulf of Mexico specifically) with, existing or future natural gas exploration and production operations. For example, the Minerals Service recently began posting information on its Web site so that interested parties may be able to identify potential conflicts before lease sale or permitting decisions are made.

Any new LNG permitting authority should not allow LNG project proponents to receive lease tract sale withdrawals, stipulations or other restrictions without full disclosure of what is being requested, and an opportunity to comment on such requests and have comments fully considered in advance of decisions related to them.

Full disclosure of, and comment on, requested withdrawals, stipulations and/or other restrictions -- prior to decisions on content of notices of lease sales -- is crucial. Otherwise our members may see millions of dollars of pre-lease sale seismic and other geoscience investment and evaluation wasted. In addition, a single withdrawn lease tract could put billions of cubic feet of natural gas resources off limits – in areas not otherwise subject to statutory or administrative moratoria.

William Whitsitt/ Domestic Petroleum Council

3. Natural Gas Infrastructure

What legislative or regulatory policies should be implemented to encourage needed additional safe and adequate infrastructure for natural gas transmission and distribution lines and storage?

The DPC recognizes that investment in new natural gas infrastructure beyond exploration and production facilities is critical for a sound natural gas future for US consumers. We generally endorse the recommendations of the NPC in its 2003 natural gas study and will work to support specific recommendations of those who are actively engaged in the transmission, distribution and storage sectors.

William Whitsitt/ Domestic Petroleum Council

4. Environmental

What are environmental challenges and regulatory barriers related to expanding our natural gas supply and how can they be remedied?

In addition to the priority regulatory matters identified in Section 1 of this submission as needing attention to prevent adverse energy supply impacts, consideration should be given to process improvements under the National Environmental Policy Act and perhaps other statutes. Although the DPC does not have specific recommendations at this time, we are considering a number of options and will provide any conclusions to the Senate Energy and Natural Resources and Environment and Public Works Committees.

It is important to note that the natural gas and oil industry has made very significant improvements in technology, management and operations to better ensure the environmental compatibility of energy exploration, development and production. Those improvements and their positive environmental effects are summarized in the attached (Appendix B) testimony (William Whitsitt. *Advances in Technology: Innovations in the Domestic Energy and Mineral Sector.* Statement on behalf of the oil and gas exploration and production industry. June 15, 2004.) and the Department of Energy publication entitled *Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology* (1999. http://www.fe.doe.gov/oil_gas/environ_rpt/index.html).

William Whitsitt/ Domestic Petroleum Council

5. Diversification and Conservation

To what extent and how can demand be reduced through conservation and efficiency measures and through diversification of energy sources used for electric generation, industrial and other applications?

We believe that important advancements can and should be made in these areas. However, as has been well documented, most recently in the NPC natural gas study, such improvements cannot make up for lack of action in increasing domestic natural gas supply.

William Whitsitt/ Domestic Petroleum Council

6. Tax Incentives

Could tax incentives help increase supply and/or reduce demand of natural gas?

Yes, tax policy has had in the past, and can have in the future, a very significant role, especially in encouraging new natural gas supplies. For this reason the DPC has supported a range of tax incentives, most recently those included in the conference agreement on HR 6 (108th Congress).

In prioritizing energy-related tax policy recommendations, given the current energy exploration and production investment climate and federal budget constraints, the DPC has identified the following actions that should be taken as soon as possible:

- **allow expensing of geologic and geophysical (G&G) costs** that are critical to the search for, and production of, new natural gas supplies.

  Geological and geophysical expenses are incurred in connection with the exploration for mineral deposits such as oil and natural gas. In most cases in which such costs are incurred, no commercial mineral deposits are ever located. If mineral deposits are located, the recovery on the investment in G&G generally does not commence for many months or years due to the time required for development of the deposit.

  Currently, G&G costs are capitalized for tax purposes until a decision is made as to whether the costs were successful in locating potentially commercial mineral deposits. If it is believed that potentially commercial mineral deposits have been located, the costs remain capitalized, with no recovery allowed for tax purposes, until the mineral deposit is tested, e.g., through drilling a well. The costs are written off as a loss if the well is dry, otherwise the G&G costs are recovered over the life of the mineral deposit through the cost depletion allowance. For the following reasons G&G costs should expensed for tax purposes when incurred:

  - G&G costs should be treated as normal business expenses since they are recurring costs in connection with continuous, ongoing exploration programs.

  - Allowing G&G costs to be expensed will encourage exploration and production of domestic energy resources by allowing allocation of additional cash to additional projects. This could be perhaps as much as $3-5-million per project that would otherwise have to be held in an account and depreciated over the entire life of that project if it were successful.

  - Allowing G&G costs to be expensed will greatly reduce the tax audit burden imposed on government and industry under the current system.

The Joint Committee on Taxation has recommended expensing of G&G costs as a tax simplification matter.

Congress has passed legislation that would have permitted the expensing of G&G costs only to see that legislation vetoed by President Clinton for other reasons. However, even the Clinton Administration supported expensing of G&G costs.

A two-year amortization of G&G costs was included in the conference agreement on HR 6 (108th Congress).

- **consider new incentive approaches** (such as the "uplift" concept employed in other energy producing countries whereby a greater taxable income deduction is allowed) for spending on activity that is to be encouraged (such as for increased gas exploration or for production, especially related to nonconventional or deep gas formations, etc.)

  The DPC is evaluating the uplift concept and will provide any conclusions as soon as possible to the Senate Finance and Energy and Natural Resources Committees.

William Whitsitt/ Domestic Petroleum Council

7. Investment

What is needed to encourage more investment in natural gas supplies and infrastructure?

The DPC recognizes the tremendous investment needs that will be needed to ensure a sound natural gas future for US consumers. In its 2003 natural gas study the NPC estimated the investment requirement to be approximately $1.5 Trillion!

The key to encouraging the required investment is adoption and consistent enforcement of energy, environmental and tax policies such as those described above and proposed by others in other sectors of the energy industry – and improved public energy education to ensure support for those policies.

William Whitsitt/ Domestic Petroleum Council

FERC and EIA Natural Gas Market Data

Is storage and market information adequate to ensure well-functioning natural gas markets?

The DPC has no specific concerns or recommendations in this area, but is receptive to better understanding any concerns that others may have, along with any related recommendations.

Appendix A

BLM APD Process Benchmarking and Good Practices Project

Summary

The Department of the Interior's Bureau of Land Management (BLM) can and should adopt a nationwide permitting process benchmark study, with follow-on good practices identification and implementation.

This project is recommended by The Domestic Petroleum Council (DPC), representing 23 of the largest and most active independent natural gas and oil exploration and production (E&P) companies in the United States. (See Attachment 1 for a summary of DPC company activity within the United States E&P industry and a list of member companies.)

Background and Overview

The Domestic Petroleum Council companies are among the most active explorers, developers and producers of natural gas and oil from beneath federal government lands. As a result, they have unique firsthand experience in working with BLM personnel across the country, and in comparing and contrasting BLM land and minerals management policies, practices and implementation processes nationwide. That experience indicates a wide variation in efficiency and effectiveness with respect to processing of permits needed at every stage of gas and oil operations.

Problem/Recommendations

BLM permitting at every stage of exploration and production operations must be carried out in a timely and consistent manner so that companies can plan and sequence environmental studies, drilling plans, gathering line connections and production operations.

The processing of applications for permits to drill (APDs), and other sundry applications and notices, such as for re-completions and changes in completion procedures, can add significant delay, scheduling confusion and at least temporary -- and sometimes permanent -- loss of energy supply to consumers.

Currently the processing of permits in certain BLM field offices is handled very efficiently. In others there are long and increasing delays.

Causes may be varied: interpretation of legal, regulatory or political requirements; lack of personnel positions and/or budget; inefficient and/or duplicative processes; personnel lacking skills and/or training to match changes in industry operating practices and/or new legal, policy or regulatory directives.

However, one thing is clear: Many offices have the potential to share innovative approaches, good practices and efficient process ideas with others.

The DPC companies believe that a short-term three-step nationwide natural gas and oil permit process benchmarking, good practices identification and implementation project should be initiated to improve BLM operations, reduce agency costs and expedite finding, developing and producing federal government oil and gas resources.

The project would build upon and go beyond the May 17, 1996 BLM study entitled "Applications for Permit to Drill: Report on Problems Identified with Processing Timeframes and Recommendations to Resolve Identified Issues." That study confirmed a significant range of success rates among BLM offices in meeting permit processing objectives. It also made a number of potentially significant recommendations to improve APD processing. The recommendations dealt with such issues as "…conflicting priorities, poor understanding of APD priority, incomplete APD packages submitted by the operator, conflicting resource demands, excessive or unnecessary NEPA compliance…" and a number of others.

It is not clear, however, whether the 1996 APD study included comprehensive and uniform data on APD processing by every BLM office. It apparently did not address other notices or permitting actions. It is not clear to what extent its recommendations were accepted or put in place. And, there is no indication that it led to a comprehensive "best practices" approach to permitting improvements throughout the BLM.

As a result, the DPC recommends that the 1996 study be reviewed and that an additional short-term Natural Gas and Oil Permit Process Improvement Project be initiated to include:

- A quick-turnaround nationwide survey of every field office to gain data on:

- numbers and types of gas and oil permits received and processed over the past two years;
- numbers of permits approved on a weekly basis during the period; and,
- numbers and skill levels or grades of employees processing permits and doing related work, such as field visits and inspections.

(See Attachment 2 for representative examples of graphed data on permit processing that should be readily available from all BLM field offices.)

- Analysis of office-by-office data to find and highlight obvious correlations among variables that may contribute to such things as:

- higher and lower numbers of permits processed during comparable time periods; and,
- higher and lower numbers of permits approved per employee.

- Field visits to qualitatively explore variables and capture "good practices" that might be replicated in lower-performing offices.

- An action plan to:

- compile findings, including highlighting successes and identifying offices and areas needing improvement;
- prioritize improvement variables and factors to be addressed (policy interpretation, necessary changes in law, appropriations levels, staffing reallocation, process streamlining);
- create and field human resource teams to work with field office on moving toward "good practices" and higher performance; and,
- create a BLM-wide system of best permitting practice recognition and sharing.

- An evaluation process that will establish periodic monitoring and feedback to managers and employees on energy permitting performance.

Conclusion

Initiation of such a project would send important signals throughout BLM as to the importance of excellence in the processing of energy permits – and a commitment of DOI and BLM leaders to provide the necessary resources to accomplish it.

Completion of such a project would go a long way toward ensuring an energy-conscious culture and institutionalized permitting process improvements in the agency.

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Attachment A-1
(updated 1-04 to reflect new data and current members)

Domestic Petroleum Council

The Domestic Petroleum Council is a national trade association representing 24 of the largest United States independent natural gas and crude oil exploration and production companies.

Most DPC members are publicly-traded corporations, and most have international operations or interests. They are leaders in developing and applying technology necessary to find and produce oil and gas onshore and offshore, including in deep water.

The DPC companies* as a group:

- are leaders in adding domestic energy reserves by being among the most active in drilling natural gas and oil exploration and development wells in the United States;
- produce almost one quarter of the natural gas in the United States, and account for more than 20% of the country's domestic oil production;
- hold more than one-third of independents' U.S. gas reserves, and approximately one quarter of all U.S. gas reserves;
- hold more than 57% of independents' U.S. oil reserves and 23% of all U.S. oil reserves;
- are strong players in the offshore Gulf of Mexico, with almost 4,900 total OCS lease interests, more than 2,800 as operator;
- have more than 2,300 deepwater lease interests in the Gulf of Mexico, including almost 1,200 operator designations (with more than 1,000 ultra-deep interests, more than 500 of those as operator); and,
- provide jobs in the United States for almost 27,000 employees.

Domestic Petroleum Council companies also have exploration and production operations or interests in 54 other countries.

The DPC mission is to work constructively for sound energy, environmental and related public policies that encourage responsible exploration, development and production of natural gas and crude oil to meet consumer needs and fuel our economy.

* As evaluated with research assistance of Deutsche Bank

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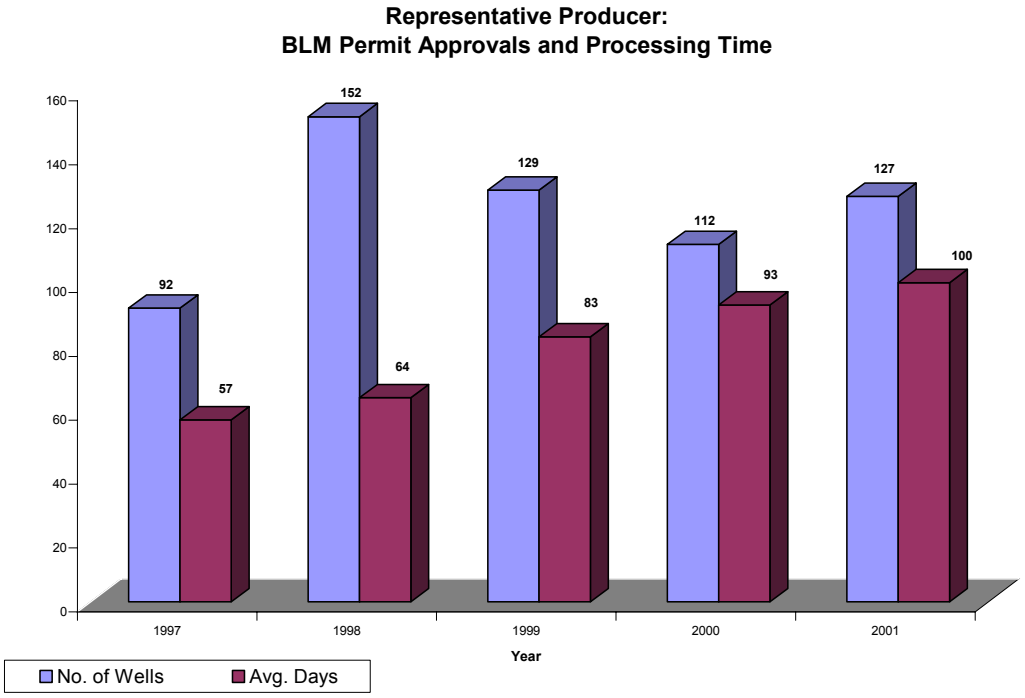
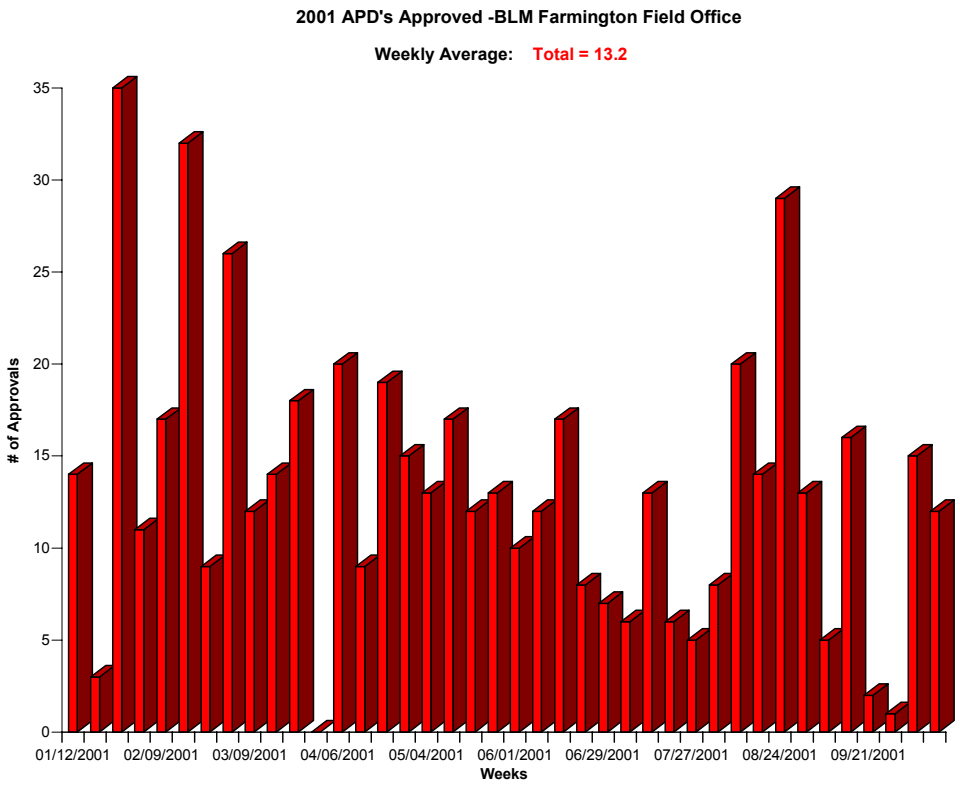
Anadarko Petroleum Corporation
Apache Corporation
BHP Petroleum (America)
Burlington Resources Oil & Gas Company
Cabot Oil & Gas Corporation
Chesapeake Energy Corporation
Devon Energy Corporation
Dominion Exploration & Production, Inc.
El Paso Production Company
Energen Resources Corporation
EOG Resources, Inc.
Forest Oil Corporation
The Houston Exploration Company
Hunt Petroleum Corporation
Kerr-McGee Corporation
Newfield Exploration Company
Noble Energy, Inc.
Occidental Oil & Gas Corporation
Pioneer Natural Resources Company
Plains Exploration and Production Company
Pogo Producing Company
Seneca Resources Corporation
Unocal Corporation
XTO Energy Company

Attachment A-2





Appendix B

Statement of

Dr. William Whitsitt
President
Domestic Petroleum Council

on behalf of

American Petroleum Institute
Domestic Petroleum Council
Independent Petroleum Association of America
International Association of Drilling Contractors
National Ocean Industries Association
Natural Gas Supply Association
U.S. Oil and Gas Association

at the hearing on

Advances in Technology: Innovations in the Domestic Energy and Mineral Sector

before the

Subcommittee on Energy and Mineral Resources
Committee on Resources
U.S. House of Representatives

July 15, 2004

"From coast to coast, innovative E&P approaches are making a difference to the environment. With advanced technologies, the oil and gas industry can pinpoint resources more accurately, extract them more efficiently and with less surface disturbance, minimize associated wastes, and, ultimately, restore sites to original or better condition."

- *U.S. Department of Energy*[*]

Good afternoon Chairman Cubin and members of the Subcommittee.

I am William Whitsitt, President of the Domestic Petroleum Council that represents the largest U.S. independent natural gas and oil exploration and production companies.

The Department of Energy statement at the top of my prepared testimony captures the essence of what I would like to discuss with you.

I am very proud to represent the DPC members today. But I am also proud and pleased to represent the smallest to the largest exploration and production and drilling contractor members of the other associations you see in my statement: the American Petroleum Institute, the Independent Petroleum Association of America, the International Association of Drilling Contractors, the National Ocean Industries Association, the Natural Gas Supply Association and the U.S. Oil and Gas Association.

Together we are putting many exciting technology concepts, inventions and innovations to the task of supplying the energy needed to run our air conditioners, get us to our jobs and to fuel our economy – technologies that also have exciting benefits in reducing the temporary surface disturbance of our activities and that help us continually improve our operations in terms of environmental compatibility and efficiency.

We in the exploration and production sector today are, above all, application innovators and integrators of technology.

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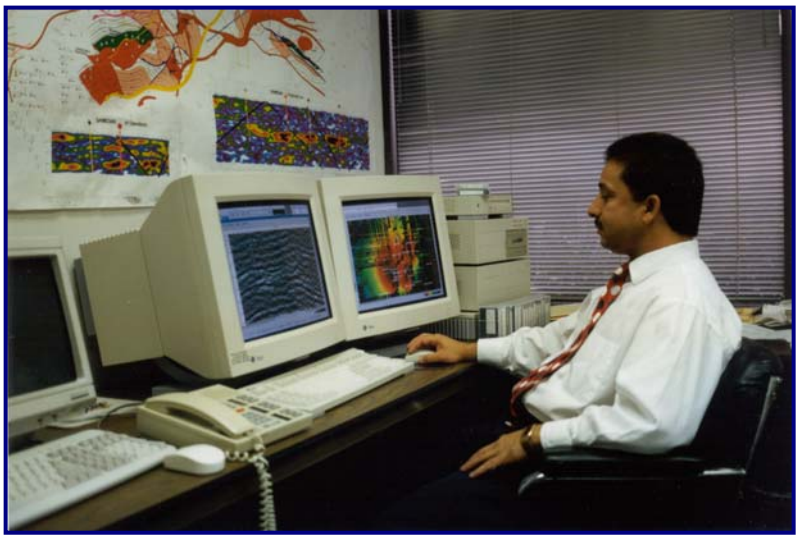
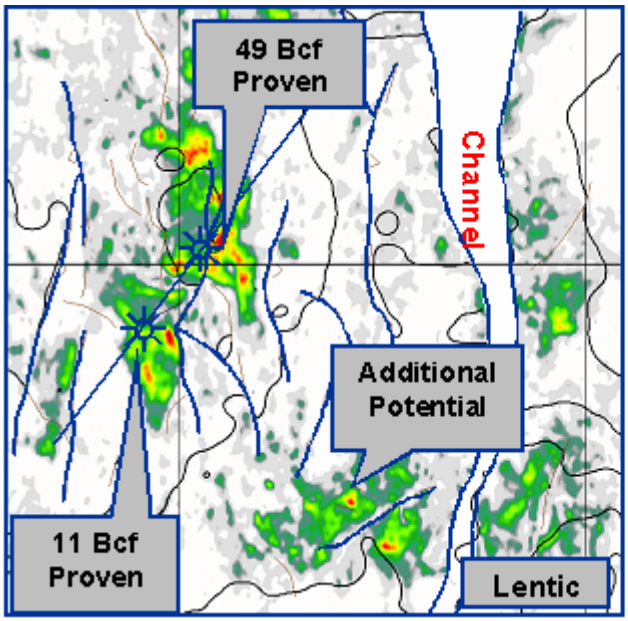
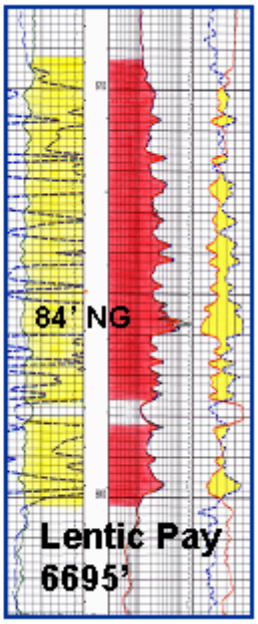
[*] *DOE: Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology, 1999. (http://www.fe.doe.gov/oil_gas/environ_rpt/index.html)*

Our geologists, geophysicists, computer scientists and others work together to figure out what resources may be miles below the ground, often also beneath thousands of feet of water offshore. (In large measure at this stage they are developing and testing theories and ideas generated by very creative scientists and other experts with the aid of supercomputers, sophisticated work stations – lots of knowledge and experience.)



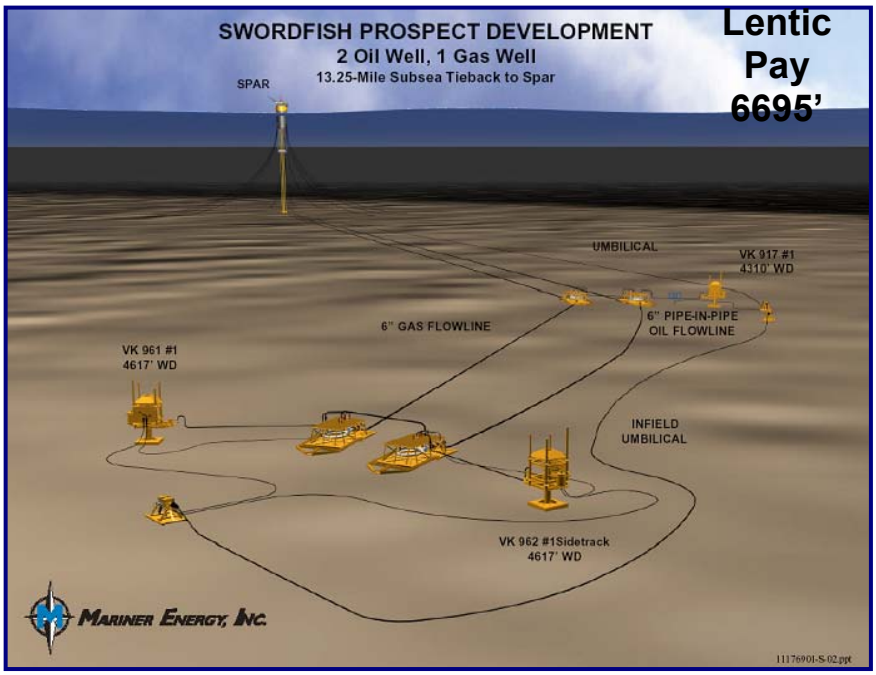
With petroleum engineers, energy companies then attempt to determine how best to reach what they believe may be there with a drill bit. If successful in doing that, they must make decisions about the quality and quantity of discovered resources, and whether the geology and geography will permit economic extraction. Then they must plan and design a program – with technology a key element – to develop and produce those resources.



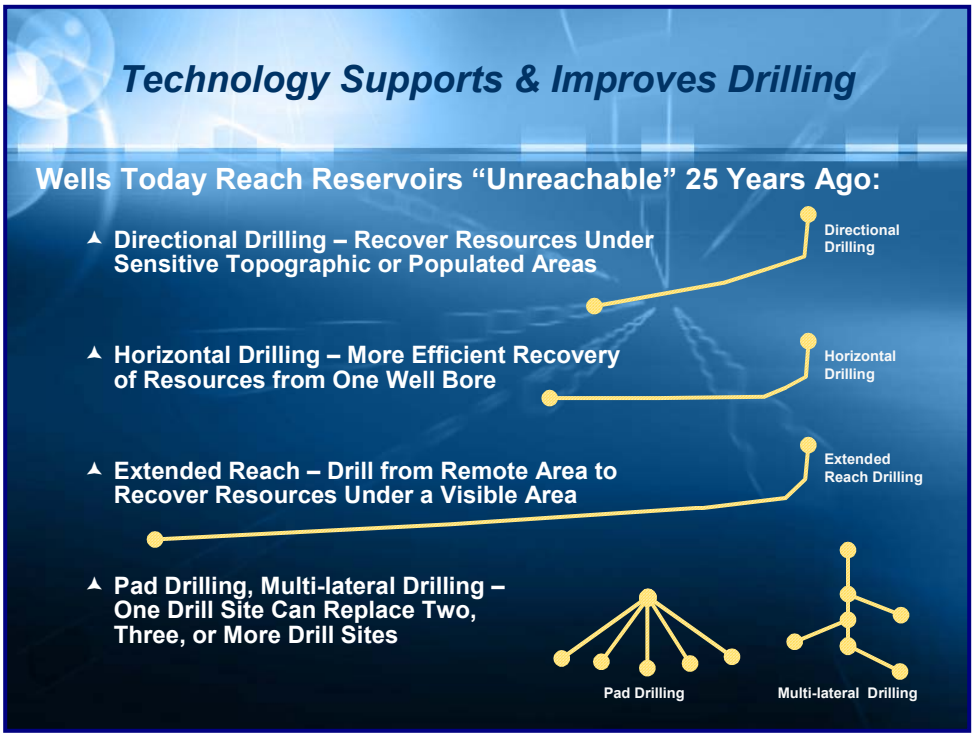


As the DOE correctly pointed out in its study that I've cited (and a copy of which I am providing with my printed testimony for your hearing record), the latest "seismic" software and hardware technology provide the ability to better "see" subsurface geologic formations by analyzing acoustic waves, and even MRI and radar images, of potential gas bearing reservoir rocks and coal formations deep below the surface of the earth, both onshore and under the sea.

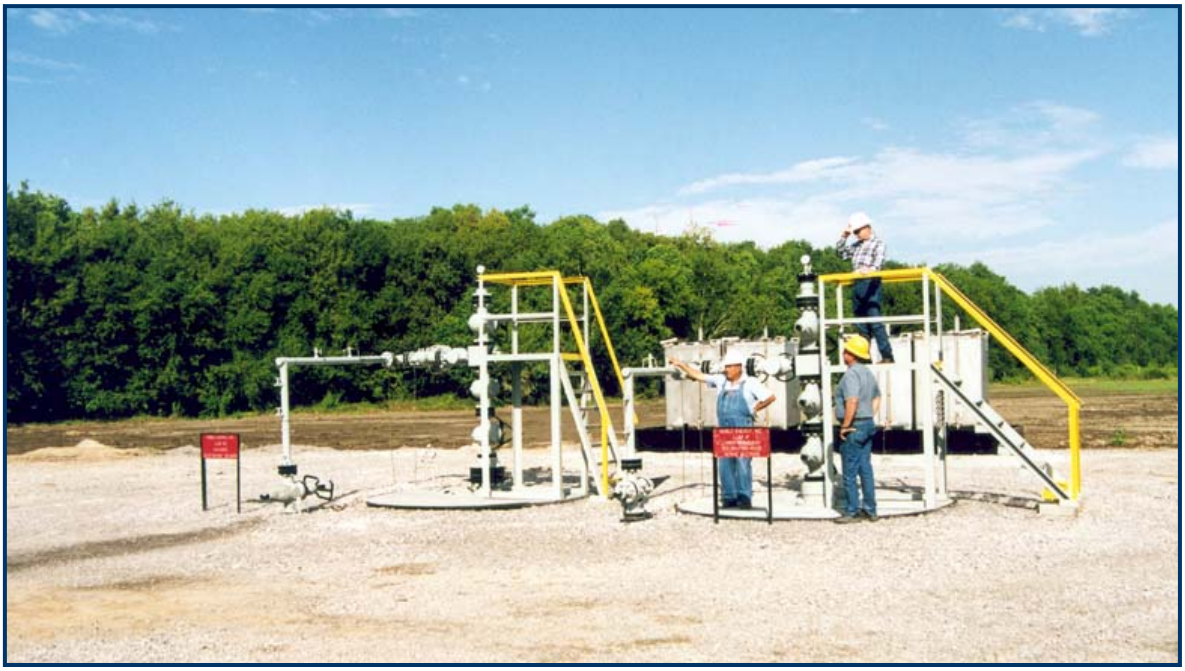
These technologies increase the likelihood that natural gas will be found and more quickly made available to consumers. They not only improve the chance of drilling success – leading to fewer unsuccessful wells, or "dry holes" – but they also better enable us to pinpoint the best locations for development wells to efficiently produce the natural gas or oil. These result in fewer wells and less surface disturbance onshore and fewer, more strategically placed facilities offshore.



An offshore note: Even fewer facilities are required by use of subsea completion technology that may allow many wells to produce to a single facility over distances further than from Baltimore to here.

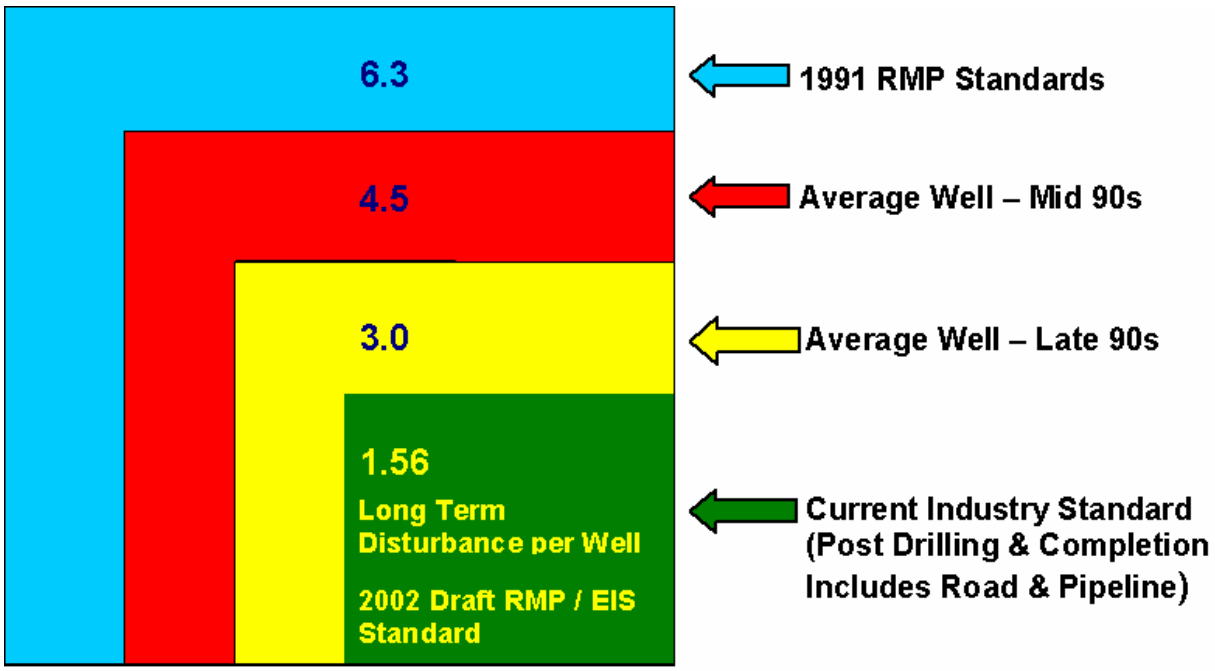


Highly sophisticated directional drilling systems are able to probe below the surface – even horizontally and for extended distances – to reach prospective oil and gas reservoirs in less time and with more reliability.



In many cases today we are able to drill multiple wells from a single location, or access several reservoirs with multiple "completions" from a single well.

Because of more compact drilling equipment, including use of coiled tubing instead of drill pipe in some situations, we can reduce the temporary disturbance of the "pads" or areas we need to drill wells. More compact surface equipment is leading to smaller and smaller production facilities.



In the San Juan Basin of New Mexico – perhaps the most prolific natural gas production area in the country – average well pad size has dropped from over six acres to just over an acre-and-a-half.

Not only is the surface disturbance smaller, but the time needed to develop our resources can be drastically reduced. Today's drilling and completion technology brings wells on line in a fraction of the time needed just 20 years ago. A 10 – thousand foot deep gas well in Wyoming may take less than 2 weeks to drill and

less than 2 weeks to complete today. The same well could have taken up to 6 months to drill and complete in the 1980's.

In Alaska, improved technology, closer well spacing and directional drilling have enabled 40-thousand-acre fields like Alpine on Alaska's North Slope, to be developed with less than 100 acres of surface disturbance.

In addition, the effects of seismic work in the arctic have been reduced by use of specialized tracks on the vehicles that exert less pressure on the tundra.

All the technology areas that I've just touched upon, and many more, are fully described in the DOE study that I urge Subcommittee members to at least scan.

Although not every technology is suitable for every geologic, geographic or other situation, we are constantly seeking and trying better ways of doing things.

That means helping to develop new technology with our service sector partners who lead the way in this area. But, as important, we are constantly seeking and trying new ways of applying technology to new and different situations for benefits we have discussed.

Finally, we are also committed to reclamation and restoration after we have drilled a well or produced a field.

As an example, here you see an area in New Mexico that the Forest Service not long ago suggested might not be appropriate for natural gas activity because of its “undisturbed” environment.

Imagine the surprise when one of the exploration and production companies working in the area pointed out – and verified by aerial photography – that this is actually a road that had been reclaimed following earlier gas exploration and production work.

Thank you for the opportunity to be with you today.

I would be glad to answer questions.