

Testimony of

**James T. Hackett**  
**Chairman, President and CEO**  
**Ocean Energy, Inc.**

on behalf of the  
**Domestic Petroleum Council**

before the  
House Resources  
**Subcommittee on**  
**Energy and Mineral Resources**

March 15, 2001

Good afternoon. I'm James T. Hackett, Chairman, President and CEO of Ocean Energy, Inc.

Ocean Energy is a Houston-based independent oil and gas exploration and production company with a market capitalization of \$4.5 billion dollars. Two thirds of its reserves and production are in the United States. It has a large commitment to growing our natural resource base as it spends nearly \$1 billion dollars in 2001 on exploration and development, especially deepwater drilling in the Gulf of Mexico. Drilling in these water depths (of up to two miles deep) costs from \$20 to \$100 million dollars per well.

On behalf of the twenty-two large U.S. independent natural gas and oil exploration and production companies of the Domestic Petroleum Council, thank you for inviting us to be here today to discuss the importance of access to federal government lands if we, as a nation, are to have the future natural gas supplies that will power the new internet economy and fuel our industry, and keep our homes and businesses warm in the winter and cool in the summer.

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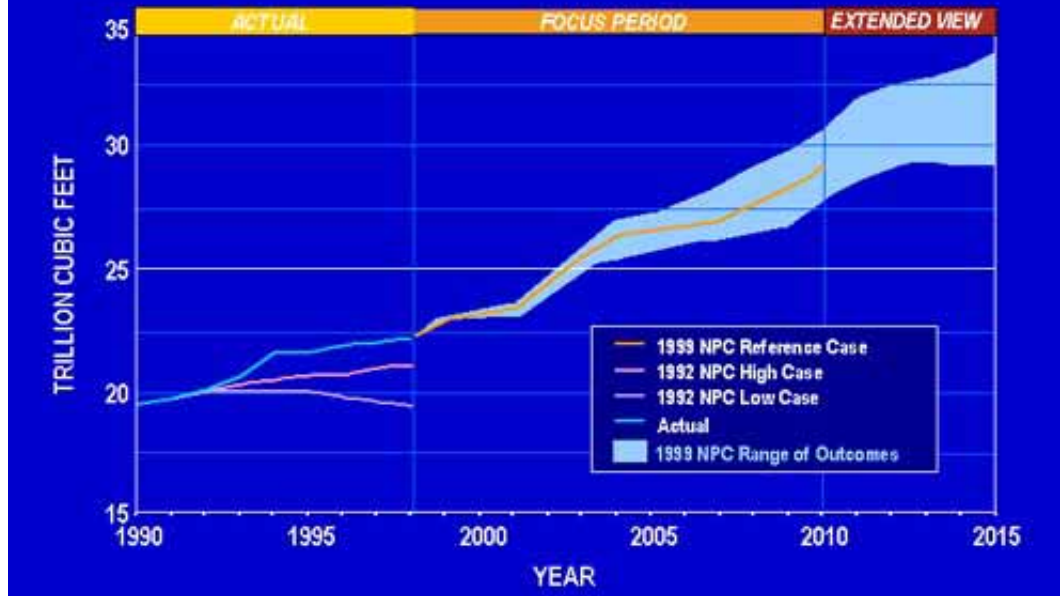
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The DPC companies are all very concerned about this issue. We produce one-fifth or more of the nation's natural gas. We are responsible for most of the wells that U.S. independents drill. We know as well as anyone the challenge we face in having access to the gas resources we'll need to find and produce in the future.

I'll cite examples of that challenge, and some policy and implementation changes that will help us meet it.

# U.S. Natural Gas Demand

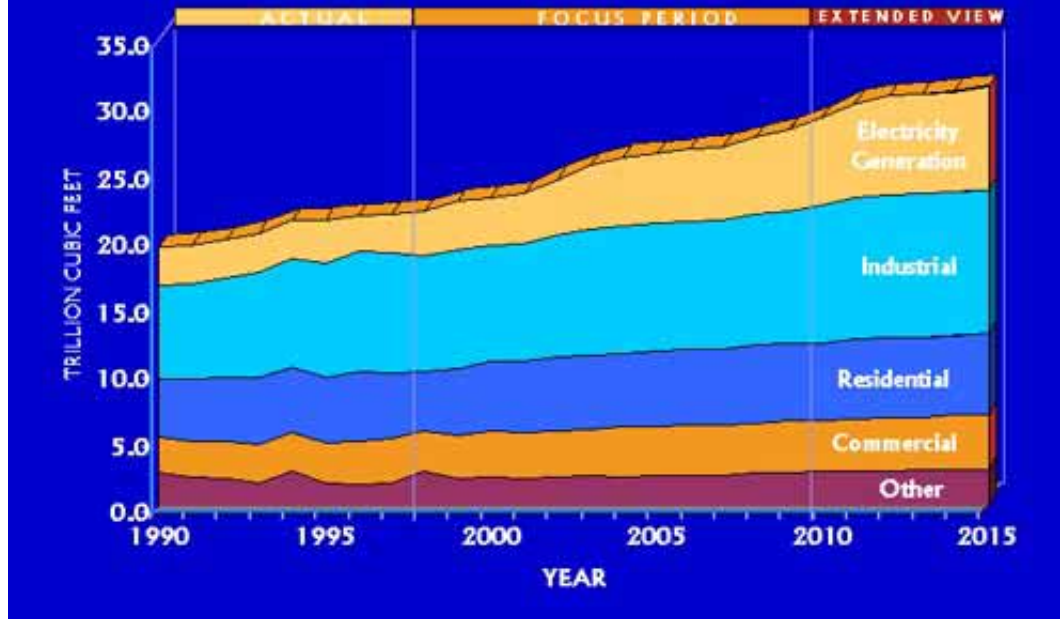
Comparison of 1992 and 1999 NPC Study Results



Let's remember that we are facing a U.S. natural gas demand increase of more than 30% by the year 2010, according to the 1999 natural gas study of the National Petroleum Council that was requested by the U.S. Department of Energy.

The last study of this type was conducted in 1992 and, as is shown here, the growth in demand for this clean-burning fuel was underestimated. It is still early to predict, but it is very possible that once again demand projections are conservative. There are recent indications that natural gas demand could be even stronger than the latest NPC projections.

## U.S. Natural Gas Demand by Sector



Of the annual 7 trillion cubic feet (TCF) increase in natural gas demand projected by 2010, almost half will be required for power generation.

Over 90% of projected new electrical generating capacity will be gas fired.

It is estimated that about 85,000 megawatts (MW) of new gas fired generating capacity will come on line in the US this year alone, resulting in increased gross gas usage of almost 650 billion cubic feet (BCF) per year.

# Critical Factors

- Access
- Technology
- Financial Requirements
- Skilled Workers
- Rigs
- Lead Times
- Requirements of New Customers

The NPC Study concluded that the North American natural gas resource base is sufficient to meet the projected demand for natural gas. However, this ability is very dependent on industry and government positively addressing seven key challenges.

Access topped the list.

Access to multiple-use federal government lands is a critical concern because they hold the relatively under-explored and not-yet-producing gas resources for the future. This is compared with private and state lands that have been more fully explored and developed.

(Other challenges include technology, financing, workforce, the physical infrastructure including rigs, lead times, and the requirements of the new customer base which includes the new Independent Power Producers.)

A positive partnership between government and industry is essential in meeting all the NPC-identified challenges to finding and producing the natural gas we'll need to meet the nation's economic and environmental goals.)

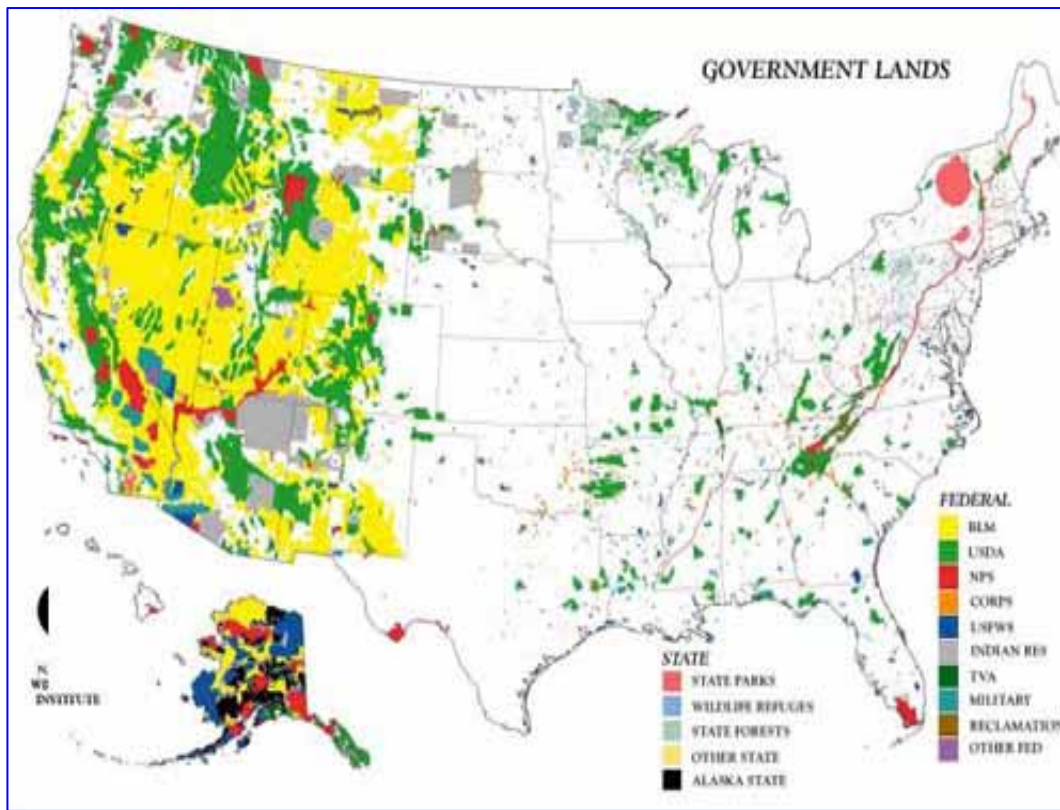
## Resource Estimates - Restricted Areas Estimated Percentage Restricted



Access to the resource base and to rights of way for infrastructure is critical for sustainable supply.

Of the almost 1,500 TCF of lower 48 resource base cited in the NPC study, approximately 47% is owned by the Federal Government. But the resource base under Federal Government lands is far more critical than that percentage might imply. As mentioned previously, that's because state and private lands have been much more fully explored and developed with respect to energy resources. By contrast, the Federal Government lands are relatively under-explored. For example, it is estimated that 90% of the Federal Government lands resource base in the Rockies is unproven and clearly not yet available to consumers. What's more, offshore drilling moratoria have virtually closed activity in the Eastern Gulf, Atlantic and Pacific Coast waters under Federal jurisdiction. It is important to note that technology has advanced to a point that we can assess and develop resources in these areas more efficiently, and with less environmental impact, than ever before.

The map above illustrates the total lower-48 natural gas resource base and the percentages of it that are either completely off-limits or is access-restricted according to the NPC. (This is based on modeling such factors as complete activity prohibition, no-surface-occupancy stipulations, two-year or greater delays and cost increases. Later examples dramatically illustrate these factors.)



As can be seen on this map, a significant portion of the Rocky Mountain area -- including some 75.8 percent of the natural gas resources according to the NPC -- is owned by the Federal Government, and managed either by the BLM or the Forest Service (US Department of Agriculture). It should be noted that the industry is not advocating drilling in National Parks. However, a significant portion of the yellow (BLM) acreage in the states of Wyoming, Colorado, New Mexico and Utah has considerable gas potential. Meaningful cooperation among these entities and industry will be required to access this important area of natural gas supply.

Let me give you some examples of restrictions that we believe can -- and must -- be dealt with.

Last year Bureau of Land Management officials in New Mexico announced new criteria for approval of applications for permits to drill in the San Juan Basin while it conducts a new environmental impact statement in preparation for updating its resource management plan. Had the criteria, including announced moratoria on some applications, been put into effect as announced, critical California gas supply from this mature producing area could have been reduced. Strong protests led to changes in the New Mexico policy while the EIS is done, but with the current APD backlog and pace, it is still uncertain whether there will be enough drilling over the next year or two to meet supply needs.

# Surface Use/Seasonal Restrictions





## Federal Government Lands



Let me pause here for a moment to point out that much of the land we are discussing is like that shown above in Wyoming. With our current technology we can explore and produce gas on these lands with much smaller drilling locations, or "pads", than in year's past. Improved geoscience technology allows us to better target promising geologic formations below ground, so we drill fewer wells. But we still must drill to find and produce gas. Then we reclaim the land to its original condition.

But to move to another example of restrictions, in Southwest Wyoming a permit for an exploratory well was denied last fall despite explicit provisions of an "interim Drilling Policy" that was in effect while a new Environmental Impact Statement was being prepared. Total company costs related to the EIS itself and the delays in permitting that have occurred to date, and could occur in the future may run over \$2-million--enough to drill six additional wells and bring them on line.

One final onshore case. In the Monongahela National Forest of West Virginia, inconsistency in the directives provided by Forest Service specialists in the preparation of an Environmental Assessment caused ten revisions over a span of 2 years. Several revision drafts duplicated previous drafts that had been rejected by the Forest Service personnel. Such delays obviously add to costs, but they also delay or prevent gas from flowing to consumers.

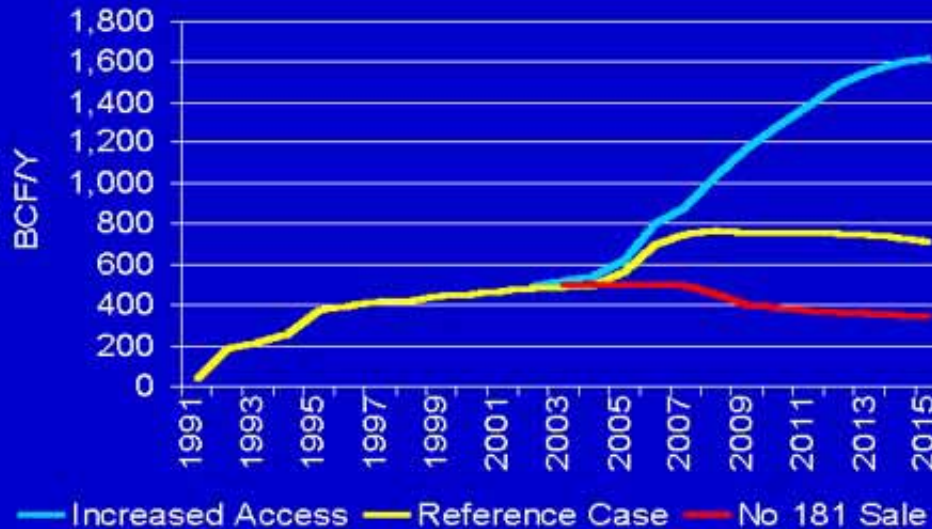
# The Gulf of Mexico is Crucial



Now an important word about the offshore. As the NPC study pointed out, and as we in our industry know, with both of our coasts off limits to exploration and production -- the Gulf of Mexico, including its deep waters, will be crucial in meeting gas demand.

Lease Sale 181 in the Eastern Gulf of Mexico, scheduled for December of this year, provides an outstanding example of what we need to be doing. It alone could make a significant 400 BCF per year contribution to providing natural gas to Florida and the surrounding region to meet increasing electricity generation needs.

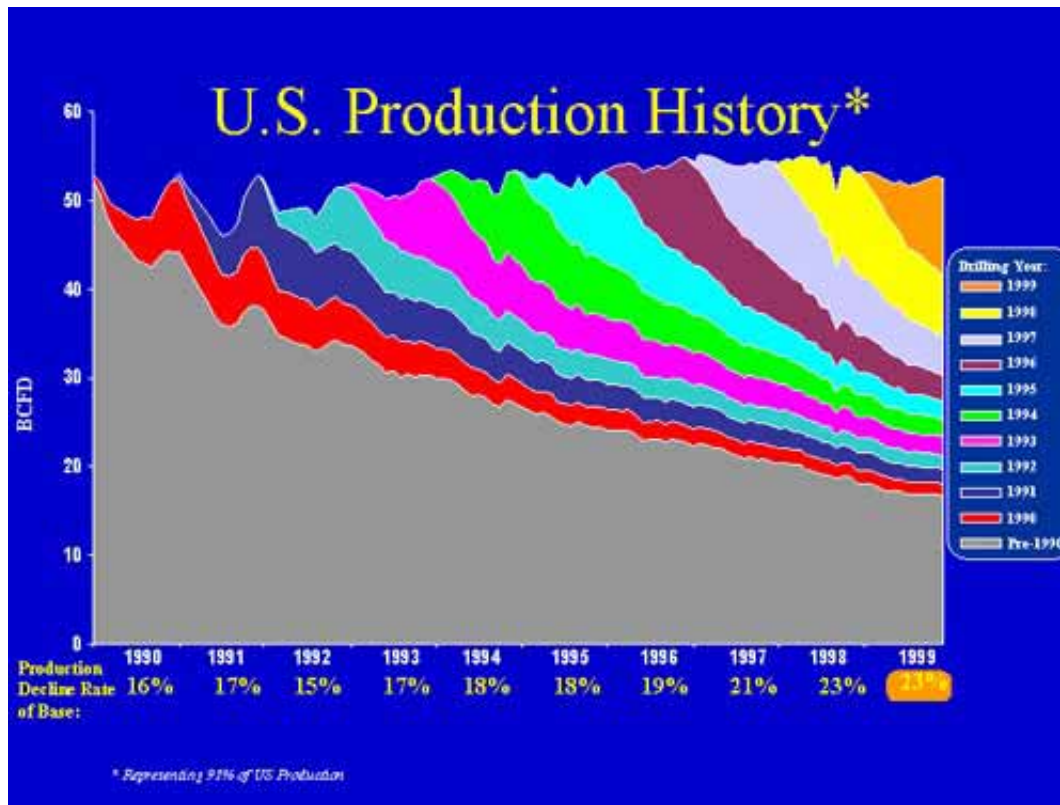
## Eastern Gulf of Mexico Upside (NPC Projection)



This chart illustrates the NPC's projection of the impact of access restrictions in the eastern Gulf of Mexico. The Reference Case curve (middle line) assumes that Western Norphlet, off the coast of Mobile, Alabama, and MMS Lease sale 181 will be the only areas in the eastern gulf that will produce gas.

Also shown here is the impact if sale 181 did not happen (bottom line). As noted a moment ago, this is a potential 400 BCF per year loss of valued natural gas resource.

However, as the top line indicates, the NPC study anticipates substantial additional gas supplies to feed the country's growing energy demand if industry is allowed access beyond the Western Norphlet and Sale 181 areas.



To begin to conclude, as this slide shows, over the past decade production from the wells we have drilled every year has declined more sharply. That's because, with current access restrictions,

1. New field discoveries tend to be smaller in size; and,
2. Drilling and completion technological advances have enable higher flow rates, resulting in shorter reserve lives as we drill and produce smaller fields.

This means that drilling rates will have to increase to meet projected demand.

Again, to accomplish this we must meet the challenges we discussed -- including investments in finding and training people for our increasingly technology-oriented industry -- and new equipment. But access to the remains the key to the responsible development of natural gas as a precious natural resource.

# Natural Gas Prices

(NYMEX)



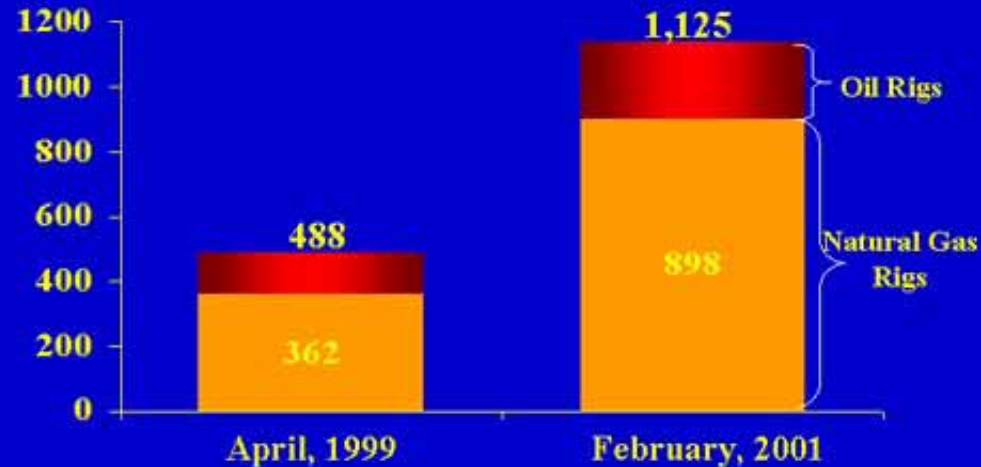
Since the NPC study was completed in late 1999, the access and regulatory issues I have been discussing have not been addressed. In fact, access has become more and more problematic in recent years.

One result of our current situation has been a tight natural gas market in which such factors as a cold winter and unexpected strong demand in the electric generation sector can cause the price history shown here by the red, or dark, line.

The good news for the future is shown by the lighter, or yellow line to the right -- the futures market beginning to respond by predicting lower prices, though still strong by comparison with most of the past decade or so. That's in part because of the extraordinary efforts our industry is making to meet consumer demand.

## Natural Gas Producers are Responding

Rigs Drilling for Natural Gas Have Doubled



As discussed on the previous slide, producers are responding to market signals.

Today, with tight supply and rising demand, producers are individually responding by working to bring more natural gas to the market. One economic indicator is the Rotary Rig Count. Natural gas drilling rigs have increased by 143% since April 1999, when prices were at their lowest.

Equally important, almost 80% of the rigs being used today are looking for natural gas, up from 75% in April 1999.

# Policy Recommendations

- Administration
  - Energy Policy Directive to All Departments and Agencies
  - Prompt Permitting Review and Benchmarking Program

We have recommended to the Administration that several steps be taken to seek better coordination of energy permitting. Included among them are:

- a directive that all resource agency policy and implementation decisions take energy implications into account; and,
- a quick benchmark survey of permitting by every state, area and Forest group within the Bureau of Land Management and the U.S. Forest Service to identify where things are being done well -- and efficiently -- and where improvements need to be made. (This would also help identify areas and offices in need of more resources, and would be a valuable budget tool.)

Then a quick program should be started to bring all parts of these agencies to the higher performance level.

Perhaps your Subcommittee and the Congress as a whole can help in these areas through legislation or oversight.

# Policy Recommendations

- Congress
  - Expedite Federal Government Lands Energy Resource Review.
  - Consider Streamlined Process for Eliminating or Easing Access Restrictions

In addition, we support the ongoing congressionally mandated inventory of energy resources on federal government lands, but it should be expedited.

Even more important, Congress and the Administration should use the time during which the inventory is being undertaken to consider whether there should be a simplified process to allow states and their congressional delegations to seek removal of access restrictions where there is little or no benefit at the cost of energy supplies, and to improve permitting processes and coordination where problems are identified.

We look forward to continuing to working with you especially on this crucial element of a comprehensive and consistent national energy policy.

I appreciate the opportunity to be with you to discuss such important energy issues, and I would be glad to answer any questions you may have.