



Natural Gas Supply Policy: 4 Action Areas and Status

On December 19 and 20, 2005, at the request of the Department of Energy the Domestic Petroleum Council outlined four areas of priority natural gas supply policy actions that could lead to both nearer- and longer-term benefits to consumers and the nation as a whole.

Progress in these areas has been mixed. Here is what we said we need and how we see things five months later:

- **Industry and government efforts must continue to restore as quickly as possible production that has been shut-in as a result of Hurricanes Katrina and Rita.**

Efforts have been remarkable given the devastation to the entire Gulf Coast region and the hardships faced by the same people responsible for carefully inspecting and repairing onshore as well as offshore infrastructure to put production back on line.

As of May 3, according to the Minerals Management Service, 12.95% of Gulf natural gas production and 21.63 % of its oil production remained shut-in.

- **Immediate, visible and responsible action by our federal land management agencies to improve and speed processing of energy permitting.**

The Bureau of Land Management is hiring more people and improving permitting practices in response to continuing increases in drilling permit (APD) and other applications needed in the Rocky Mountain region as Congress has directed and for which it has provided additional direct funding. The BLM is approving more permits than ever. But the number of APDs being filed continues to grow even faster. And the Forest Service continues to lag the BLM pace considerably.

BLM and forest service efforts must continue and adequate permit processing funds must be appropriated by Congress.

- **Immediate action by Congress and the Administration to see leasing of the remaining Sale 181 area in the Eastern Gulf of Mexico as early as next summer.**

Pending Committee-reported bipartisan Senate legislation (Domenici-Bingaman-Talent S 2253) is stalled by filibuster threats.

- **Immediate action should be taken to begin allowing selective removal of prohibitions against energy exploration, development and production offshore.**

Strong consumer company grassroots and other efforts are building offshore access support. MMS 5-Year Plan comments have been overwhelmingly in favor of more access, but the proposed leasing program is less than what is needed. And several state-option/revenue sharing bills have been introduced in the House and Senate, but the action outlook is unclear.

The DPC natural gas supply policy presentation made in December, 2005, is attached.



Statement of
Domestic Petroleum Council
on
Natural Gas Supply Policy
for
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Conference on
Balancing Natural Gas Supply and Demand Conference
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The Domestic Petroleum Council (DPC) represents 24 of the largest U.S. independent exploration and production companies. These companies are leaders in applying the latest technology to the search for, and development of, natural gas and oil resources around the world.

We – government and the exploration and production industry – have potential to improve even this winter's natural gas situation for our consumers. But we must have prompt action in at least four critical areas explained below. The combined actions in these four areas can help, perhaps very significantly.

First, however, we need to remind ourselves that the current tight natural gas market should not surprise us. Many in our industry, in trade associations and in think tanks have been warning of such a market for years. In 1999 and again in 2003, for example, the National Petroleum Council told us in the most comprehensive studies of their times that we had to make policy changes to fulfill our gas supply potential and ensure the best future for consumers. By and large the detailed recommendations of those and other studies have, until recently, been ignored. We are experiencing the consequences.

Now we have more attention to our natural gas supply situation that provides a solid basis for reaching consensus on overdue supply actions. Unfortunately that is because of current and projected high prices, industrial demand destruction and consumer hardship.

Clearly conservation is the most immediate and effective action that can offset some of what we see in today's natural gas market. The DPC supports it wholeheartedly.

We are seeing increased efforts by governments and natural gas consumers across a broad spectrum to focus more attention on conservation. [And we support increased

congressional appropriations for the Low Income Home Energy Assistance Program (LIHEAP) to aid our most vulnerable consumers while we work to ensure wise gas use.]

In addition, current and projected prices are causing businesses and industrial users to not only reduce gas demand by process improvements and fuel switching, but also by planning to make future investments overseas where natural gas costs less. These actions highlight that, while conservation is good and even necessary, it is not enough – and the more dramatic forms of conservation can have economic effects as manufacturing and investment in the United States decreases.

The bottom line is that there must be a market recognition and understanding that more natural gas supply is on the way.

Recommendations

To provide that market recognition and understanding, we must see the following:

- **Industry and government efforts must continue to restore as quickly as possible production that has been shut-in as a result of Hurricanes Katrina and Rita.**

As we look for additional supplies of natural gas near-term, there can be no more obvious source than gas currently shut-in as a result of these hurricanes. The industry knows this and is investing unprecedented funds that may ultimately reach billions of dollars to repair and replace damaged infrastructure – production, processing and transportation.

In addition to money, a lot of creativity is being expended to find ways to accelerate the return-to-production. An example from one DPC company relates to a new deepwater gas well that was about to come on production just as Hurricane Katrina hit. Even though the gas sales line to shore was intact, this well had to remain shut-in because

damage to downstream oil pipelines resulted in there being no outlet for the liquid condensate that was to be produced with the gas. As a solution, the project partner companies secured a barge and produced the condensate into the barge so that natural gas could flow from this high-rate well.

This is just one of many examples of creative actions being taken everyday as companies accelerate the restoration of Gulf of Mexico production. Nothing should have higher priority than these supply efforts – and the industry has responded at full speed.

- **Immediate, visible and responsible action by our federal land management agencies to improve and speed processing of energy permitting.**

On multiple-use lands administered by the Department of the Interior's Bureau of Land Management alone there is a backlog of more than three thousand applications for permits to drill (APDs) that are awaiting final approval.

An analysis done for the Domestic Petroleum Council -- and a similar analysis done for the Department of the Interior -- demonstrates that adequate funding and resources to process and clear out those backlogged pending APDs could increase natural gas reserves in the Rocky Mountain region by several trillion cubic feet – some of which would begin flowing soon and would make a difference in today's tight market.

In addition to ensuring adequate funding for the resources needed by permitting agencies such as the BLM, the U.S. Forest Service and others involved in these processes, the processes themselves must be improved and speeded. Delays in leasing, in preparation of environmental impact statements and in coordination among agencies all contribute to a delay in providing natural gas to consumers.

The DPC supports further review and improvement of laws that govern energy leasing and permitting, and environmental reviews and protection. But in the meantime we also support implementation of Energy Policy Act of 2005 changes and agency initiatives that also can help quickly and significantly.

Along these lines, we know that the BLM especially has made significant progress in permitting – and is processing more permits than ever. That progress needs to continue. But the demand for permits to meet natural gas consumer needs continues to rise, so we must see further processing improvements, including reduction of permit restrictions that are not essential for environmental protection, and speed.

Other agencies, especially the Department of Agriculture's U.S. Forest Service, have even further to go and must follow the BLM lead.

The prospect of such action would be recognized and understood in the natural gas market.

- **Immediate action by Congress and the Administration to see leasing of the remaining Sale 181 area in the Eastern Gulf of Mexico as early as next summer.**

The original Sale 181 area was administratively reduced before bids were received on the remainder in 2001. Discoveries in the portion that was leased provide much better understanding of the energy potential of the unleased portion. First production from what is expected to eventually be trillions of cubic feet of additional discovered reserves could probably begin flowing to market within 18-months-to-two-years of a lease sale.

Such a lease sale, based on appropriate congressional findings and direction, and based on the environmental work already done, could be held as early as next summer.

At the same time, permits should be granted for development and production of sizeable natural gas discoveries on valid existing leases in the Eastern Gulf of Mexico – leases further from Florida than other existing production but for which permits have been under consideration for years with no action.

The prospect of such leasing and permitting action – and more gas coming to market as additional Rockies supply also ramped up – would be recognized and understood in the natural gas market.

- **Immediate action should be taken to begin allowing selective removal of prohibitions against energy exploration, development and production offshore.**

The natural gas resources in current moratoria areas that prevent exploration and production off approximately 90 percent of our coasts outside of Alaska could be tremendous.

In fact, Atlantic and Pacific natural gas resource estimates are approximately what we believed to be in the Gulf of Mexico in the mid-70s. But in the area of the Gulf in which we have been allowed to search for oil and gas we have produced three times the 70s amount and we estimate five times more remaining. The more we explore, the more we know.

We must change our decades-old moratoria policy in view of both our growing energy demand and our 21st century offshore exploration and production technology that allows clean, safe extraction of oil and gas from deeper and deeper waters, with seabed wells and fewer facilities

At a minimum states should be allowed to opt out of moratoria off their coasts and share in resulting revenues generated by production.

Action by the Congress to approve such legislation – with its prospect of more natural gas supply coming to market in addition to more from the Rockies and the expanded Sale 181 area -- would be recognized and understood in the natural gas market.

Conclusion

One final point -- on prices. We in the exploration and production sector are price takers, selling our oil and gas into world and national markets in which forces well beyond our control determine price levels.

Higher prices do give us greater financial strength. This is essential in a business that may be somewhat less risky because of better technology, but in which much higher capital requirements (a billion dollars for one offshore project, for example) and operating costs make our risks every bit as important as theirs were to the wildcatters of bygone eras.

But, in common with consumers, we are not well served by volatile prices. Planning for future investment requires ability to reasonably assume or project prices to support that investment. The prospect of volatility clouds our view of what we can afford to prudently spend in the future for new supply. More supply reduces the volatility that we see in markets such as today's and is in everyone's interest.

While there is great concern for the current high prices for natural gas, we need to recognize that this is not only a short-term problem, but also long-term as well. Long-term natural gas prices as reflected in the futures markets have also risen substantially, implying that there is a market perception that natural gas supplies will be tight for a long

time. There is currently an opportunity to change this perception by taking meaningful and visible immediate actions we have outlined.

Working together on supply, as well as conservation, government and industry can make real differences in the natural gas outlook for our country. But action is needed now.