Offshore Energy: Real Access is Needed – Not More Restrictions and Taxes

Removing congressional natural gas and oil exploration and production moratoria bans that cover 85% of the submerged lands off our Lower '48 coasts must be a key part of our energy policy. But proposals that claim to do so while making some annual moratoria permanent, that make access a state option without revenue sharing, and that would increase royalties and taxes should be rejected.

Background

There is increased public support and policymaker interest in removing at least some of the leasing and development moratoria off U.S. coasts that have been put in place by annual spending bans since the 1980s.

This makes good energy policy sense. Increasing access to offshore natural gas and oil resources, coupled with ongoing improvements in conservation and alternative energy approaches, can provide nearer-term supply and price benefits to consumers – residential, automotive, agricultural, commercial and industrial.

Policymakers are moving in the right direction as they rethink past restrictive policies in light of today's national energy needs, technology improvements in the energy exploration and production sector over decades, and the solid environmental record of this sector that makes it a worldwide leader.

Problem

Anti-development interests continue to make unfounded and inaccurate arguments against offshore development.

In addition, a number of proposals are more politics than good policy. Among bad ideas are: while supposedly opening some areas, making permanent the annual bans elsewhere (such as out to 50 miles offshore); requiring states to approve leasing off their coasts, but without revenue sharing; increasing royalties or adding new IRS-administered severance taxes to circumvent lease provisions and court decisions; and, adding to and complicating existing diligent development requirements for federal leases.

Solution

Policymakers should adopt legislation that will open offshore areas, with any state concurrence provisions including revenue sharing as is currently allowed for Gulf Coast states. They should reject new restrictions and taxes.

Policymakers should also be wary of access opponents' claims. Consider:

- Expanded, responsible, offshore exploration and production may have the single greatest positive potential impact on our nation's energy future for decades as we bridge to new technologies for energy supply and use. That is far different than any claim that drilling alone is our long-term energy solution.

- Although offshore projects in new areas may take many years to be brought into production if successful, others closer to existing pipelines and other infrastructure, such as in the Eastern Gulf of Mexico, may come on line sooner. In addition, the prospect of more supply can have significant market effects long before the first cubic foot of natural gas or barrel of oil flows.

- Supply consequences of access-restricting policy decisions of a decade or more ago that are being felt today should encourage us to change those policies for the future. Conversely, decisions more than a decade ago that have allowed deep water exploration and production in some of the Gulf of Mexico have resulted in extremely important oil discoveries and increased production.

- Resource estimates for potential new offshore areas are a function of available information. Naturally areas that have not been available for exploration have relatively low resource estimate numbers. On the other hand, in the Gulf of Mexico areas open for energy activity we have produced more than three times the originally-estimated amount of natural gas – and now believe that there is more than five times that amount left to discover and produce. The more we explore, the more we know.

- New leasing offshore is critical to keeping long-term natural gas and oil projects in the pipeline. Leasing comes at the <u>beginning</u> of a very complex, methodical and expensive geoscience and engineering process to determine exactly where energy resources may be and whether those discovered may be economically producible. That takes time. And more time is needed to design drilling programs, drill wells that may cost more than $100-million each, evaluate results, and, if a project is successful, build infrastructure that may cost $1-billion or more. All this may occur over many years, or a decade or more, in which not a penny of revenue is received. There is no incentive to waste time or have leases "inactive".

New offshore natural gas and oil exploration and production access must be part of our future energy mix. That means we need <u>real</u> access, without at the same time adopting new restrictions that prevent exploration, and new royalties and taxes that will actually reduce drilling as companies cut back investment to offset those higher costs.

9-15-08 (Contact: Bill Whitsitt 405 552 3556)