HR 2337, the Energy *Un*-Reform … Act of 2007:
A prescription for slowing natural gas exploration, reducing production and increasing prices.
It should be opposed.

Background

In recent years, the natural gas supply/demand balance has tightened significantly, driving prices sharply higher than they were during the 1980's and 90's. While North America still has an abundance of natural gas resources, production from many of the older fields is falling and many newer discoveries have a sharp decline rates. Meanwhile demand has remained strong. In addition to higher average prices, the tight supply/demand balance means that prices have become more volatile during times of extreme weather or physical disruptions to the system.

The result is that we must drill more wells each year just to keep pace with demand. Natural gas producers are going all-out to find and develop new North American natural gas supplies from our very large resource base – with positive results beginning to be seen. Drilling last year was at record highs and it appears that production held steady or perhaps even increased slightly.

Problem

In the Energy Policy Act of 2005, Congress did its part to address the natural gas supply challenge by giving agencies a number of tools to allow them to process drilling permit requests in a more streamlined manner. Importantly, no environmental standard was waived nor was any step in the review process eliminated. Rather, Congress created several tools to allow agencies to process permits more efficiently.

H.R. 2337 would <u>undo</u> these advancements and add even more layers of delay and expense to natural gas production on public lands. The bill sends exactly the wrong signals to the natural gas market and to government agencies charged with the responsibility to manage the public's natural resources. By slowing the pace of drilling, H.R. 2337 is anti-consumer and a presents a threat to our economy. Industrial users of natural gas have been warning for several years that reduced supplies and higher prices will put companies out of business and drive jobs overseas. H.R. 2337 will contribute to these predictions coming true.

Solution

Policy changes that will have even unintended adverse natural gas supply effects should be avoided.

HR 2337 should be opposed because of its EPAct 05-related provisions intended to slow energy activity. Examples include those that would:

- repeal the highly successful company rental payment direct funding of BLM energy pilot program offices that has allowed improved energy permitting, wildlife and inspection & enforcement staffing and activity;

- repeal a prohibition on imposing new fees – added costs that would have to come out of exploration and production budgets -- on exploration and production companies that *routinely invest more than twice their earnings* in the search for new energy supplies, and already pay billions of dollars in bonuses, rents and royalties to federal and state treasuries;

- impose new fees, in addition to existing rental payments, on acreage under federal oil and gas leases on which "production is not occurring", even if, for example, exploration is underway to determine whether the acreage even has natural gas or oil resources in commercial quantities, whether the acreage is part of a development plan under which drilling has simply not yet occurred, or whether the acreage is part of a federal unit under which drainage will eventually occur;

- repeal time limits on consideration of applications for permits to drill even as permit processing times are improving, providing more energy faster to consumers;

- repeal "categorical exclusions" that in defined cases prevent duplicative environmental studies and encourage siting of natural gas and oil wells at locations already studied and approved for such projects;

- repeal all but a part of the successful royalty-in-kind program that was adopted to eliminate royalty payment disputes based on differing company and government oil and gas valuation opinions;

- add penalties of as much as *nine times* the value of legitimately disputed royalty payment amounts;

- allow for decisions related to certain actions on coastal project permitting to continue indefinitely; and,

- require *replacement* of energy project-produced subsurface and surface water, even if that water is beneficially used for agriculture or other purposes, if it comes from a "source" also used for those other purposes directly.

These and other provisions will slow natural gas exploration, development and production projects.

They will also add direct and indirect costs that will reduce energy project investment.

Of special concern is that HR 2337 will reduce natural gas production at the very time we see hopeful signs that supplies from our significant North American resources can play an increasing role in meeting consumer needs -- including the inevitable demand increase that will be caused by any climate change action.

HR 2337 should be opposed.

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