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Mr. Chairman and Members of the Committee, thank you for the opportunity to appear today to discuss energy policy and hurricane recovery, especially the Department of the Interior's activities and responsibilities in bringing the offshore oil and gas production in the Gulf of Mexico back on line.

Hurricanes Katrina and Rita clearly demonstrated we have no margin to mitigate the impacts of natural disasters on our energy supply. The wake-up call being sounded for the past decade has reached the point where it must be heard. The President recognized, in his National Energy Policy, that we need to increase our energy supply and invest in our energy infrastructure. The President's National Energy Policy report envisioned a long-term energy strategy. As the report stated "America's energy challenge begins with our expanding economy, growing population, and rising standard of living. Our prosperity and way of life are sustained by energy use.
America has the technological know-how and environmentally sound 21st century technologies needed to meet the principal energy challenges we face: promoting energy conservation, repairing and modernizing our energy infrastructure, and increasing our energy supplies in Wll3'8 that protect and improve the environment. Meeting each of these challenges is critical to expanding our economy, meeting the needs of a growing population, and raising the American standard of living." In fact, in recent testimony presented to the Senate Interior Appropriations Subcommittee by the Industrial Energy Consumers of America stated that "[s]ince 2001, natural gas prices have significantly contributed to the loss of 3.0 million manufacturing jobs and the shifting of future investment overseas."

Therefore, we must not lose sight of this fact: Diversification of our Nation's energy supply is a key goal for this Administration and must remain a top priority for our Nation's economic and national security. Achieving the goal of secure, affordable and environmentally sound energy will require diligent, concerted efforts on many fronts on both the supply and demand sides of the energy equation.

Hurricane Katrina and Rita Recovery

The oil and gas produced from the Gulf of Mexico are vital to the American economy and way of life. Production from the Gulf of Mexico provides 27% of oil and 20% of natural gas produced domestically. However, it took two major hurricanes back-to-back to drive home the importance of this region to our Nation's energy security. As a country we face tightening oil and gas supplies and higher prices. It is time to take a closer look at the full impact of Hurricanes Katrina and Rita.

The attached map shows that Hurricanes Katrina and Rita moved through a core area of offshore operations. Of the approximately 4,000 platforms, 2,900 were in the path of Katrina and Rita.
One platform in the path of Katrina clocked sustained winds of 170 mph for 5-6 hours with gusts of over 200 mph. At Rita's peak on September 25, 100% of daily oil production and 80% of daily gas production in the Gulf was shut-in. Prior to Hurricane Katrina, the Gulf of Mexico produced

approximately 1.5 million barrels of oil per day, and 10 billion cubic feet of natural gas per day. In the wake of these two devastating hurricanes, a significant portion of our Gulf production has been curtailed: as of October 21, 2005, some 65 million barrels of oil and 327 billion cubic feet of natural gas have not been produced due to shut-in wells. We do, however, want to note that additional facilities were shut-in due to Hurricane Wilma, resulting in an approximately four percent increase in shut-in production. These facilities did not sustain any damage and therefore, are expected to come back on line in the next few days.

There is good news regarding offshore operations. Katrina and Rita - both reaching Category 5 strength as they spun through the Gulf and the heart of the offshore energy production - caused no Joss of life among offshore industry personnel or significant spills from any offshore wells on the Outer Continental Shelf (OCS). This bears repeating: We faced down two of the most devastating hurricanes ever to hit the Gulf of Mexico without one significant spill from any offshore well on the Outer Continental Shelf. Although there were some minor pollution events from lines or equipment, all subsurface safety valves installed beneath the seafloor successfully prevented uncontrolled releases of hydrocarbons into the Gulf of Mexico.

The Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) has been collecting fish samples in the aftermath of the hurricanes to determine exposure to contaminates resulting from the storms. On September 29, 2005, NOAA announced the results of the first sample tests of Gulf of Mexico fish two weeks after Hurricane Katrina. The latest tests found no elevated exposure to hydrocarbon contaminants, which can be present at elevated levels in marine life after exposure to oil spills. The first round of samples were from Pensacola, Florida, along the coastlines of Alabama and Mississippi and then around the southern tip of Louisiana at the mouth of the Mississippi River and back. NOAA has advised that samples from two subsequent cruises are currently being analyzed and NOAA will continue to assess impacts throughout the year. The Department's Minerals Management Service (MMS) regulates all exploration, development and production activities on over 8,000 leases in the Gulf of Mexico alone. Since human and environmental safety are two of MMS's major goals, we are very pleased with this result.

At the same time, significant damage has been reported regarding facilities in the OCS. Katrina destroyed 47 platforms and 4 drilling rigs; extensively damaged 20 platforms and 9 drilling rigs; and shut in 95% of Gulf oil production and 88% of Gulf natural gas production. Production had not fully recovered post Katrina when Rita hit the Gulf. Rita destroyed an additional 66 platforms and 4 drilling rigs; extensively damaged 32 platforms and 10 drilling rigs; and shut in I00% of Gulf oil production and 80% of Gulf natural gas production.

Today, we are seeing incremental progress in the Gulf oil and gas production. As of October 21, 2005 shut-in numbers are 66% of the oil and 53% of the natural gas production. Again, these percentages are slightly higher post Hurricane Wilma but we expect that portion of production to resume quickly. It is fair to say, however, that oil production in the Gulf of Mexico will not be back to I00% for many months. Recovery is dependent on repairs to onshore facilities, offshore and onshore pipelines transportation systems, and offshore platforms. Generally Industry must conduct the necessary inspections of these networks, determine the repairs required, and then perform any necessary repairs. It is evident from reports received from Industry to date that this work will take approximately several months to a year. For example, we estimate, based on Industry reports, that approximately 30 percent of pipelines have not been leak tested and approximately 60 percent of underwater/riser inspections have not been completed.

Industry has reported billions of dollars in damage and we expect the figure to grow as inspections are complete. The oil and gas industry continues to use all available resources to board, assess damage, re-man and begin repair of OCS facilities, concentrating on the high- producing operations first. Even as production repairs are made, however, problems with dislocated employees, onshore support facilities, terminals, refineries and pipelines could delay the resumption of supply to market.

The industry is exploring various alternatives to restore transmission of oil and gas from the OCS while repairs are being carried out on pipelines and onshore facilities. Concerning pipelines in the area impacted by Katrina and Rita, we estimate that 45 percent of the pipelines are operational, 30 percent need repair, and 25 percent are undamaged but cannot flow due to downstream problems. In some cases, oil is being barged to shore until pipelines and other facilities can be repaired, inspected and judged safe for operation. The MMS, along with the U.S. Coast Guard, has approved these requests resulting in 33,000 barrels of oil per day being brought back online that had been shut in due to downstream refinery problems. The MMS is evaluating such applications on a case by case basis.

Both onshore natural gas processing facilities and oil refineries suffered extensive damage from the storms. In fact, some onshore production in the states of New Mexico and Texas was also shut-in due to the lack of refining capacity. Following Katrina, the Mount Bellevue plant could not accommodate any refinery product from the Dukes plant in New Mexico, where some of the natural gas produced from federal oil and gas leases in New Mexico is sent for processing.
Consequently, the Dukes plant could not accommodate any raw product for approximately 24 hours resulting in some production having to be shut-in. This example serves as an illustration of the ripple effect that occurred oil and gas production and refining. It will take multiple months to repair processing plants.

A number of variables are impacting this restoration process. Industry personnel, for both offshore and onshore operations, have been and continue to be affected by the storms and must ensure their families' well-being and safety first. Onshore infrastructures suffered significant damage. For example, 16 natural gas processing plants in Louisiana and Texas are inoperable due damaged from the hurricanes.

MMS Actions

As directed by the MMS's Continuity of Operations Plan (COOP), the Gulf of Mexico Regional Office, which is located in the New Orleans area moved its COOP team to Houston, Texas, in advance of the evacuation triggered by Katrina. As Hurricane Rita bore down on Houston, the COOP team evacuated once more to the MMS's offices in Herndon, Virginia, and continued collecting and evaluating data on the status of operations in the Gulf. In addition, the MMS also moved its Lake Charles District Office operations to other district office sites in the region.

In September Johnnie Burton, the Director of the Minerals Management Service, and I visited our New Orleans staff recently relocated to Houston where we witnessed the dedicated employees hard at work to bring facilities back on line and resume normal operations. The dedication of these public servants - many of whom had their homes destroyed or severely damaged - is beyond words.

The MMS has notified all 530 MMS Region employees that they will be back to work on October 31, 2005, at one of four office sites, three in the New Orleans area and one in Houston. The top five floors of the Region's headquarters building were severely damaged and are being renovated. The bottom five floors are habitable and employees will be using this space as of October 31, 2005. All administrative and health procedures have been put in place to ensure our employees will be working in a safe and healthy environment.

The Department is also taking other actions to help bring production back online. After Katrina, it was apparent that there was massive disruption to not only the producing, transporting and processing infrastructure, but also the supporting infrastructure including the companies' land- based operations essential to repairing damage. Hurricane Rita amplified this impact by disrupting operations which had been recently reconstituted after Katrina and significantly expanded the coastal area that was disrupted. The culmination of the two storms created Herculean challenges for the industry and based on prior experience, the MMS immediately began the following:

streamlining processes for various permit approvals to resume production,

expediting reviews of requests for the temporary barging of oil until pipelines are repaired, and

accelerating the process to approve pipeline repairs.

MMS is also providing regulatory relief to those companies hardest hit by Hurricanes Katrina and Rita. This relief eliminates undue burdens on companies at a time when the focus must be maintained on repairing and restoring infrastructure. For example, MMS extended the time to report and pay royalties for companies that certify that they cannot report or pay due to the hurricanes' impact on their offices and staff. Finally, the effective dates for two regulations have been extended in order that we do not place additional burdens on industry at this time.

Gulf oil and gas operations account for a significant portion of our domestic production and the Department is determined to bring production back on line as quickly as possible. This is truly a vital issue, which we are pursuing every day. MMS is always striving to ensure that appropriate technology is used in the design and operation of offshore facilities and MMS assesses all potential improvements for withstanding hurricane-force wind and waves. I have been working closely with Energy Secretary Bodman and Transportation Secretary Mineta on these important issues.

Lessons Learned
Damage reports post-Rita have highlighted a problem with Mobile Offshore Drilling Units (MODU). Nineteen MODU's broke loose from their moorings and were set adrift; some causing damage to pipelines as anchors dragged along the ocean floor. To address this issue, I have called for a Conference on Mobile Offshore Drilling Units to be held at the Department, here in Washington, D.C. on November I 7, 2005. During this conference we will assess lessons learned and we will define a path forward.

What lessons have we learned from the past month? Major new facilities, constructed to meet MMS's 1988 updated design standards, fared much better than their older counterparts. Typhoon was the only platform built under the 1988 standards that was destroyed. I have asked MMS to work together with the U.S. Coast Guard to investigate the destruction of the Typhoon tension leg platform. The MMS has commissioned studies that are assessing the actual wind, wave and

current forces that were present in Hurricane Ivan, analyzing the consequential damage to structures and pipelines, determining the effectiveness of current design standards and pollution-prevention systems and developing recommendations for changes to industry standards and MMS regulations. If funding permits and it is practical to do so, these studies will be expanded to include information from Hurricanes Katrina and Rita.

Hurricanes Katrina and Rita confirmed that our offshore oil and gas industry produces environmentally safe energy for America. Even in the face of two back-to-back major hurricanes, all subsurface safety valves held on the OCS and there was no significant spill from production. The small amounts of oil observed in the water surrounding platforms may have come from damaged pipelines or petroleum supplies for running platform machinery, but, as stated, it did not come from OCS production wells.

In addition, the Katrina/Rita scenario has confirmed that our domestic offshore oil and gas resources are key components in the energy mix which provide some of the basic necessities Americans have come to expect - gasoline for our cars, heating fuel for our homes, natural gas to cook our meals, to power our factories, and to generate the electricity that is critical to our way of life and critical to powering our advanced economy. At present, more than 25% of America's total domestic oil and natural gas production comes from only 10% of the total OCS acreage.

Energy Development and Diversification

ANWR

President Bush's National Energy Policy report laid out a comprehensive, long-term energy strategy for securing America's energy future. That strategy recognized that to reduce our rising dependence on imported oil and gas, we must also increase domestic production while pursuing conservation and development of alternative and renewable energy sources. The President proposes to open a small portion of the Arctic National Wildlife Refuge (ANWR) to environmentally responsible oil and gas exploration using newly available, environmentally friendly technology. ANWR is by far the largest potential untapped source of onshore resources in the country. Had ANWR been opened in 1995, it is possible that today we could have oil from the area, which may have helped mitigate the effects of the hurricanes. I would like to thank you and the rest of the Congress for taking up this important issue as we continue to try to provide additional energy resources in an environmentally responsible way.

OCS 5-year plan

Under the OCS Lands Act, the MMS is required to prepare a new 5-year leasing plan that specifies the size, timing and location of areas to be considered for Federal offshore natural gas and oil leasing. The 5-year planning process provides several opportunities for MMS to work with stakeholders, including Federal and State agencies, local communities, private industry, and the general public to develop a program that offers access in an environmentally responsible manner to those areas with potential for discovery of natural gas and oil. Not every area analyzed in a 5-year plan is recommended for leasing consideration. In addition, public participation through input and comments is an integral part of preparing the environmental impact statement (EIS) in conjunction with the 5-year program, and there are multiple opportunities for public comment during the EIS process as well.

The MMS announced in late August that it is seeking initial public comment on the development of its 2007-2012 five-year leasing plan for energy development on the Outer Continental Shelf (OCS) and accompanying environmental impact statement. In seeking public comment, MMS asked the public to comment specifically on whether the existing withdrawals or moratoria should be modified or expanded to include other areas in the OCS; and whether the Interior Department should work with Congress to develop gas-only leases. Throughout the process of developing a new 5-year program, MMS requests comments from states, local and tribal governments, American Indian and Native Alaskan organizations, the oil and gas industry, Federal agencies, environmental and other interest organizations, as well as the general public. Consultation with affected parties also occurs at the local level through MMS regional offices. Of all of the comments received to date on the 5-year plan, MMS has received 8,998 comments for opening additional areas of the OCS and 2,276 against. We have received several letters from senior citizens expressing their "strong support" for opening additional areas of the OCS. One senior citizen wrote "I'm writing to express my strong support for developing more domestic oil and natural gas resources off our coasts - in the country's Outer Continental Shelf (OCS)- by providing for more acreage for lease in the government's next five-year leasing program for 2007-2012... Higher energy prices of the past two years have forced me to make hard choices. And I worry that high energy prices will harm our economy affecting the value of pensions and making it more difficult for Social Security to help make ends meet."

We have also received several letters from Chambers of Commerce throughout the country. The Indiana Chamber of Commerce wrote "The Indiana Chamber of Commerce and our members are experiencing high energy costs, resulting in a negative impact on production and transportation in Indiana." The Arkansas Chamber of Commerce stated "Over the last five years the price of natural gas has risen 140%. There is no doubt this increase has played a role in the reduction of manufacturing jobs available to Arkansans."

Onshore Mineral Development

The Bureau of Land Management (BLM), an agency within the U.S. Department of the Interior, administers 261 million surface acres of public lands, located primarily in 12 Western States. The BLM sustains the health, diversity, and productivity of the public lands for the use and enjoyment of present and future generations. The BLM continues to balance the energy needs of the country while working within its multiple use framework and is mindful of alternative uses of the land it manages.

Within areas designated for appropriate mineral development, the BLM has been making a concerted effort to help bring additional oil and gas supplies to the market. Domestic production of natural gas has been increasing over the last three years. In Fiscal Year 2002, 2.1 trillion cubic feet (Tcf) of natural gas and 107.5 million barrels of oil (bbl) were produced from Federal (non-Indian) lands. In Fiscal Years 2003 and 2004, 2.2 Tcf and 3.1 Tcf and 101 million bbl and 98.2 million bbl, respectively, were produced. In addition to the Federal onshore leases, the BLM supervises the operational activities of 3,700 producing Indian oil and gas leases.

Permitting and Leasing

Processing Applications for Permits to Drill (APDs) and operating an efficient federal oil and gas leasing program continues to be a major priority for the BLM. Increased funding provided by Congress and management improvements have enabled the BLM to make significant progress in responding to the greatly increased number of APDs being submitted by industry. In FY 2004, the BLM processed 7,351 APDs, approving 6,452 (on both Federal and Indian lands). In FY 2005, the BLM had processed approximately 7,736 APDs (about 400 ahead of FY-2004's pace), approved 7,018 APDs (about 600 ahead of FY-2004's pace).

Also, as directed by the Energy Policy Act of 2005, BLM is implementing a pilot project to better coordinate APD processing. The BLM has entered into a Memorandum of Understanding with the Fish and Wildlife Service, Bureau of Indian Affairs, Army Corps of Engineers, Environmental Protection Agency, and United States Forest Service to provide staff and expertise to better coordinate activities in order to improve efficiency while maintaining environmental protection. The pilot offices will be aggressive and innovative in finding better and more efficient ways to manage the oil and gas program and within 18 months, we will have identified best management practices that can be implemented bureau wide. New money from rental revenue will help BLM accomplish this task. With more efficient processes and additional funds, we anticipate BLM could process more than 9,600 permits in FY 06 and 11,400 permits in FY07.

The Energy Policy Act of 2005 also gives us a valuable tool for improving our NEPA compliance related to the exploration or development of oil and gas by providing a legislative determination that a set of defined and very minor development activities do not need further site specific NEPA review and if proposals meet certain conditions, they should be deemed to be categorically excluded from further NEPA review.

It is important to note the dramatic increase in the number of protests that the BLM has experienced in recent years, which create processing delays. For example, in 1999, approximately 4.5 percent of leases offered were protested; BLM received approximately 166 protests on 3,628 leases offered. In 2005, 50 percent were protested; 1,291 protests on 2,342 leases offered. The State of Utah provides a clear illustration of the impact of protests on the oil and gas program. In 2004, every lease sold in Utah was protested resulting in delays in issuing them of up to 18 months. The real challenge for BLM is that the same personnel who process protests also process APDs, conduct leasing, inspection and enforcement, land use planning, and a range of other activities.

National Petroleum Reserve-Alaska (NPR-A)

BLM is also working to make oil and gas resources in Alaska available through its leasing, exploration and development activities in the NPR-A, an area covering more than 23 million acres in the northwest corner of the state. Development of these oil and gas resources is an important component of the President's National Energy Policy. It is estimated that NPR-A contains 10.6 bbl and 61.4 Tcf undiscovered resources for the entire assessment area. The first significant commercial production from the NPR-A is expected as early as 2008.

Oil Shale

The United States holds significant oil shale resources underlying a total area of 16,000 square miles. This represents the largest known concentration of oil shale in the world and could contain the equivalent of 2.6 trillion barrels of oil. More than 70 percent of American oil shale is on Federal land, primarily in Colorado, Utah, and Wyoming. The Energy Policy Act directs that public lands in these three States be made available for research, development, and demonstration (RD&D) leasing within six months of the measure becoming law. In response to its announcement of an oil shale RD&D program, the BLM has received 20 nominations for parcels of public land to be leased in Colorado, Utah, and Wyoming. BLM intends to offer RD&D leases for the viable nominations early in 2006. BLM will also be conducting a programmatic Environmental Impact Statement and will develop a commercial leasing program by mid 2007.

Coal

The BLM is doing its part to ensure that the Nation has an efficient, affordable, and reliable domestic energy supply of coal. Bonus bids are up I77%; existing lease production is up nearly 24%; and the

royalty and estimated rent income is up nearly 33%. During this time period, 2001- 2004, nearly 1.8 billion tons of coal were produced from Federal leases. In addition, the Energy Policy Act of 2005 gives the Department the authority to increase the number of acres per lease, which we are working on implementing.

The Office of Surface Mining Regulation and Enforcement (OSM) works with coal operators to ensure that land that has been mined is restored to its previous condition. OSM has a successful working relationship with the States and mining industry to ensure sites are properly reclaimed. OSM brings a level of regulatory stability to the benefit of all stakeholders.

Conservation and Renewable Energy

Fossil fuel development is only a part of the solution to our Nation's energy issues. We also must increase energy conservation and the use of alternative and renewable resources. The Department echoes Secretary Bodman's call for an increase in conservation measures. Most media coverage of the President's National Energy Policy and the recently enacted Energy Policy Act of2005 focused on the parts dealing with production of traditional energy. However, both call for increased energy conservation and alternative and renewable sources as critical components to a balanced energy program. Good stewardship of resources dictates that we use energy efficiently and conserve resources. Americans have already made great strides in using energy more efficiently. Since 1973, the United States economy has grown nearly three times faster than energy use, in part due to more efficient use of energy. Efforts over the past 20 years have proven that simple conservation actions by individuals and businesses can yield impressive results in demand reduction.

Alternative and renewable sources of energy can also play an important role in helping meet our increased energy needs. To this end, the President and the Energy Policy Act of2005 encourage development of a cleaner, more diverse portfolio of domestic energy supplies, and include measures to aid in the development and expansion of renewable energy technologies in use today, including geothermal, wind, solar, and biomass, as well as continued research into using hydrogen as an alternative energy carrier. Such diversity helps to ensure that Americans will continue to have access to the energy they need.

With that in mind, the Department has been working hard to establish conditions that will permit the development of renewable sources both on and offshore. We are proud of our record of results. We are increasing permitting, improving land use planning, and establishing policies that emphasize the use of renewables. In fact, since 2000, we have approved 200 geothermal leases and 92 wind energy permits. To further encourage wind energy development, the BLM has prepared a national EIS, which will assist the BLM in expediting wind energy permitting across our public lands. In addition, offshore we are developing a process to implement new authority provided for in the Energy Policy Act of2005 that allows MMS to permit alternative energy-related uses such as wind, current, and wave technology on the OCS.

Hydropower is also a key renewable energy source. The Bureau of Reclamation's 58 power plants make it the 10th largest producer of electricity in the Nation. Those plants have an exemplary record of reliability, with a forced outage rate of about one-half of the industry standard. We are continually expanding generation at our facilities by upgrading turbines. In addition, the Fish and Wildlife Service is involved with Federal Energy Regulatory Commission licensing of private hydroelectric facilities. We are working to make that process more streamlined, predictable and effective.

For solar energy, last fall the BLM issued a solar energy development policy, which, among other things, establishes the authority and procedures for BLM field offices to use when processing applications for

solar projects. It helps establish solar markets by encouraging BLM field offices to consider the use of solar power for BLM facilities and field stations. More than 650 facilities owned and operated by the Department are equipped with solar systems. These include office buildings and remote systems such as weather stations and water pumps. Many other Federal agencies often use solar for power at isolated facilities as well.

Finally, the Department of the Interior continues to explore ways to encourage the use of wood biomass created as a result of wildfire prevention and healthy forest treatments. Most people think of ethanol from com when they think of bioenergy, but wood is the source for 72 percent of all U.S. bioenergy production. Two Presidential initiatives, one to prevent catastrophic wildfires and the other to restore rangeland and forest health, encourage the removal of excess or diseased wood debris from forests and rangelands. This wood debris can be used as a renewable source of biomass energy.

The Department is working to reduce regulatory barriers and encourage the development of markets for the material produced from biomass and are actively working with other stakeholders on ways to use this resource. For instance, we will be hosting, along with the Departments of Agriculture and Energy, a conference on bioenergy. The Department will also provide training to local communities in biomass utilization.

Conclusion

Hurricanes Katrina and Rita brought devastation and destruction to a wide area of our Nation. The road to recovery after these storms will be long and, at times, very difficult. However, it is in these instances more than ever that humanity comes together as one to begin the journey toward recovery, rebuilding, and restoration. I am proud of the commitment and dedication shown by the employees of the Department of the Interior during this difficult period. Our resolve to assist in recovery and restoration activities remains strong. We will do all that we can to assist those affected by these storms as they begin the process of rebuilding. Our agency is not alone in this endeavor. We are working shoulder to shoulder with other Federal, State, local agencies, and industry in these efforts.

The disruption to our energy production in the Gulf is significant but we have learned lessons that will serve us well into the future. Most importantly, we have learned that the systems in place have worked. Modem oil and gas production techniques are effective and environmentally sound even in the most challenging and unpredictable of environments.

Thank you for the opportunity to be here today to discuss the Department's role in hurricane recovery and energy development. I will be happy to answer any questions members of the Committee may have for me.