

November 21, 2006

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Five-Year Program Manager  
Minerals Management Service (MS-4010)  
Room 3120  
381 Elden Street  
Herndon, VA 20170

Mr. James Bennett  
Chief, Branch of Environmental Assessment  
Five-Year Draft Environmental Impact Statement  
381 Elden Street (MS-4041)  
Herndon, VA 20170

Subject: Comments on Proposed Five-Year Program for 2007-2012 and Draft EIS for the Five-Year Program for 2007-2012

Dear Ms. Orr and Mr. Bennett:

The National Association of Manufacturers (NAM) is pleased to comment on the Minerals Management Service (MMS) Request for Comments on the Proposed Five-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program for July 2007 to July 2012 and Draft Environmental Impact Statement (EIS). The NAM is the nation's largest industrial trade association representing small and large manufacturers in every industrial sector and in all 50 states. The NAM is concerned that structural costs, including high energy prices, place U.S. industry at a competitive disadvantage. In fact, a recent study conducted by the NAM and the Manufacturing Institute found that these costs are 31.7 percent higher in the U.S. than those of our global competitors. Manufacturers consume approximately 33 percent of the natural gas in the United States and rely on the resource not only as a source of energy, but also as a feedstock in the plastics, pharmaceutical and fertilizer sectors.

## **I. Background**

U.S. industry has only recently begun to recover from the previous manufacturing recession, which resulted in the loss of more than 3 million high-wage manufacturing jobs in the United States over a five-year period. These job losses are attributable to a variety of structural costs that diminish U.S. competitiveness, ranging from environmental compliance to corporate tax

rates. High energy costs, however, constitute a significant overhead cost and have played a large role in overall job losses. Natural gas prices in the United States are more than three times higher than they were during the late 1990s and have fluctuated dramatically during the past 12 months, underscoring the market volatility of this important and increasingly scarce commodity.

The chemical manufacturing sector has been especially hard hit. It has shuttered more than 70 facilities in the U.S. in 2004 and tagged an additional 40 facilities for closure. This has resulted in the loss of 100,000 jobs. In the coming decade, of the 80 chemical plants being built around the world with price tags of \$1 billion or more, none will be built in the U.S. The fertilizer industry has lost more than 36 percent of its domestic capacity since 2002, and much of that capacity will never return to our shores. Manufacturers employ highly skilled, well-paid workers, ranging from engineers, to researchers, to operators of sophisticated machinery. Because of the significant energy price increases and accompanying decline in manufacturing employment, the NAM has a direct interest in the development of the next offshore leasing program.

Federal environmental mandates have created a substantial increase in demand for natural gas while options for developing more supplies have diminished. The 1990 amendments to the Clean Air Act (CAA) mandated substantial cuts in emissions of nitrogen oxide (NOx) and sulfur dioxide (SOx) from power plants, forcing many facilities to switch from coal to natural gas as a fuel source. Although federal policies created a higher demand for clean-burning natural gas, the government failed to help balance the demand by implementing policies that would increase supplies. Instead, the federal government systematically imposed energy development bans on our nation's resources.

The OCS is vitally important to America's energy security. It contains huge, untapped resources of oil and natural gas that are critically important to sustaining our national economic growth and maintaining much-needed jobs in virtually every sector of the economy. Oil and natural gas are essential to making the many products we use in our daily lives – ranging from plastics, to computers, medicines and to hospital equipment.

## **II. MMS Should Expand the Current Proposal To Increase Domestic Supplies of Natural Gas and Oil**

The NAM generally supports the inclusion of the areas that the MMS has identified for leasing in the Proposed Program, including areas in the Central and Western Gulf of Mexico, Cook Inlet, Beaufort Sea, Chukchi Sea, the Northern Aleutian Basin in Alaska, and the limited area identified off the coast of Virginia. The current draft plan, however, should do much more to correct the market imbalance that misguided federal policies have created with respect to energy prices by opening all 26 leasing areas for development. For example, the entire mid-Atlantic region and areas in the South Atlantic region - especially the waters off the coasts of North Carolina, South Carolina and Georgia - should be included for analysis. Furthermore, the final plan should expand those areas that it proposes for leasing, with more detailed recommendations explained below.

According to recent estimates from the MMS and United States Geological Survey (USGS), Alaska's offshore waters contain U.S. reserves estimated at 25 billion barrels of oil and 122 trillion cubic feet of natural gas, constituting more than 25 percent of all offshore natural gas reserves. Other estimates, however, taking into account modern drilling technology estimate that the Alaska OCS contains 132 Tcf of natural gas and over 26 billion barrels of oil. Thus, the undiscovered resources on the federal OCS that could be recovered with *today's* technology are estimated at 420 Tcf of natural gas and almost 86 billion barrels of oil. That is equivalent to three times the oil resources of Canada and Mexico combined and almost six times the natural gas resources of these two countries.

The MMS estimates that the Chukchi Sea is the most promising and materially undeveloped U.S. offshore petroleum basin. Lease sales are already occurring in the Beaufort Sea. The MMS estimates that there are approximately 23 trillion cubic feet of natural gas reserves in Bristol Bay. Accessing these reserves is crucial to providing much-needed U.S. energy supplies and stabilizing volatile natural gas prices.

In addition to opening more OCS acreage for development, the Five-Year Plan should also provide a flexible, timely process for amending the plan to allow inclusion of areas where development is currently prohibited should they be opened to development in the future. Also, the plan should assure that lifting of the federal moratoria will allow development of both gas and oil. An energy neutral federal policy will assure that energy producers will have the necessary incentives to invest the hundreds of millions of dollars necessary to drill offshore. Gas-only leasing programs will significantly diminish those incentives.

### **III. Area Changes from the Draft Program**

The NAM is concerned that the MMS is going in the wrong direction in the evolution of the upcoming Five Year Lease Plan and urges the MMS to remedy this trend by offering more leases and overall acreage for development. The Proposed Program alters several areas offered for leasing in the Draft Proposed Program by limiting the areas originally offered. For example, the Chukchi Sea area and the small mid-Atlantic area would be cut back to accommodate 25-mile buffers from the coastline. The latter area would be further cut back to accommodate a no-obstruction zone in and out of the Chesapeake Bay. The North Aleutian Basin Area would be cut back to mirror the same area offered in Sale 92 in 1988. The MMS can address this rollback by expanding the acreage offered for lease in the Beaufort and Chukchi Sea and Bristol Bay in Alaska.

The Central Gulf area would be cut back to exclude acreage east of the military mission line. The NAM opposes this exclusion. Historically, the MMS has successfully worked with the Department of Defense to determine which areas east of the Military Mission Line may be leased, based on the military's needs, the agency's plans, and mitigation measures. It is short sighted to simply take this acreage off the table through 2012, when the resources could be left in the plan, with a proviso that the Secretary of Defense must be consulted before leasing could occur. The MMS could reverse this trend by issuing a final plan that includes all areas from the Sale 181 Area in the Central and Eastern Gulf, including the so-called "stovepipe" in the northern segment, and the "eastern bulge."

#### **IV. Size, Timing and Location of Leasing**

The NAM gives qualified support for the following options with regards to the size, timing and location of lease sales in the Five-Year Program:

- Generally we support the five area wide annual sales proposed for the Central Gulf of Mexico Planning Area. We reiterate our recommendation that the agency increase the acreage for Sale 181 to include the entire original Sale 181 area that was specifically identified for leasing by the previous Administration. This is an area that holds great potential for future natural gas and oil finds. It may hold more than 12 trillion cubic feet of natural gas, a significant resource potential. Since the area is so close to existing infrastructure, it is also the quickest way to bring new supplies of energy to consumers.
- We generally support the Proposed Program Option for the Western Gulf of Mexico Planning Area, which would provide for five area wide annual sales. These lease sales will maintain a predictable series of sales for the five years of the program.

The NAM opposes:

- The Proposal *not* to analyze any areas in the Eastern Gulf of Mexico Planning Area. While most of the area is under withdrawal, it is an area of high resource potential and should be included in the plan for analysis so that the program will be more flexible. We object to the proposal to not include and analyze the portion of the original Sale 181 that is still in the Eastern Gulf of Mexico Planning Area. As stated above, this area has the greatest potential of delivering the most natural gas in the shortest time frame.

The NAM commends the agency for including a small portion of the mid-Atlantic Planning Area in the Proposed Program, and for proposing one special interest sale in 2011. However, we strongly object to limiting the areas to this one small section. As stated above, the entire mid-Atlantic region and areas in the South Atlantic region - especially the waters off the coasts of North Carolina, South Carolina and Georgia - should be included for analysis.

#### **V. Draft Environmental Impact Statement Alternatives**

In choosing among the eight alternatives outlined in the draft environmental impact statement the NAM supports Alternative 1, the Proposed Action. This alternative would call for 21 lease sales; six in the Central Gulf of Mexico, five in the Western Gulf of Mexico, two in the Beaufort Sea, three in the Chukchi Sea, two in the North Aleutian Basin, two in Cook Inlet, and one in the mid-Atlantic. The NAM encourages the MMS to prioritize the leasing of the Central and Western Gulf of Mexico because this natural gas and oil will get to U.S. consumers quicker than the other areas. Alternative 1 is fully analyzed in the draft document and comes closest to meeting the requirements of the Outer Continental Shelf Lands Act (OCSLA). However, we strongly encourage MMS to include leasing in areas of the Atlantic and at least a portion of the Eastern Gulf of Mexico.

## **VI. Policy Rationales for Expanding the Five-Year Plan**

### **A. The American Public Overwhelmingly Supports a Broader OCS Plan:**

The Administration clearly has strong political support for an expanded OCS plan. During the draft proposed plan phase, MMS received approximately 37,000 comments, of which 27,000 supported expanded access to the OCS. When the MMS initially requested public comments in preparation of the upcoming plan, the agency received nearly 11,000 comments, of which approximately 80 percent supported a significantly increased OCS leasing plan. Comments that support increased development of offshore resources included representatives from a broad spectrum of interested parties, including small businesses, individual consumers feeling squeezed by higher energy costs and farmers paying more for fertilizer. We believe that the Administration has strong support from the American public to increase domestic energy supplies by releasing a much broader Five-Year Plan.

Opening more areas of the OCS to development will also strengthen the nation's energy security by dispersing risks associated with natural disasters. For too long, OCS development has been limited to the central and western Gulf of Mexico, along the Texas and Louisiana coastlines. This has been a vitally important area – supplying almost 30 percent of the oil produced in the U.S. and about 20 percent of the natural gas. As we have been reminded all too starkly by recent events, disruptions in supplies from this area have national implications affecting consumers throughout the country. While this area will remain vitally important, it is clear that we must expand energy development to other parts of the OCS.

### **B. The OCS Contains Substantial Energy Resources:**

According to the most recent estimates from the MMS and USGS, there are approximately 420 trillion cubic feet (Tcf) of natural gas underlying the OCS. Based on projected demand estimates 20 years from now, there is more than a 17-year supply of natural gas on the OCS. Experience shows, however, that there may be even greater OCS resources than the data show. Current resource estimates may be conservative since the areas are largely unexplored and the estimates have not benefited from the use of new seismic and computer modeling technology. Generally, the more an area is explored, the more its resource estimates grow. For example, government estimates of undiscovered oil in the central and western Gulf of Mexico increased by more than 400 percent between 1995 and 2003 and undiscovered natural gas resources by more than 100 percent.

### **C. Offshore Leases Could Create a Revenue Stream for the States**

There is legislation before Congress that would allow coastal states a portion of the revenues derived from offshore leases to fund environmental restoration projects. The revenues could also fund other state priorities, such as education and transportation projects. Such incentives would bolster state-level and local support for Administrative action to open more lease areas of the OCS for deep water exploration.

### **D. Policy Rationales for Continuing Federal Moratoria on the OCS Are Obsolete**

When federal restrictions on development of the OCS were imposed during the Reagan Administration, natural gas was plentiful and inexpensive, and energy development technologies were not nearly as advanced as they are today. Arguments that offshore drilling can damage a state's tourism industry are also outdated. Modern technology allows offshore rigs to be deployed more than 20 miles off the coastline, rendering them invisible from the beach. Thanks to innovations from manufacturers during the past two decades, modern offshore drilling and exploration technology is even more environmentally sound and efficient. Although the Gulf region has been battered by several hurricanes during the past two years, including at least one category five storm, there has been no major release of oil or natural gas near the Gulf shores. Following last year's hurricane season, several offshore pipelines shifted several feet from their original locations, but they did not rupture. The absence of a significant environmental disaster in 2005 has been among the few bits of good news arising from the recent natural disasters in the Gulf region.

#### E. Congress Intended to Use the OCS to Support Energy Development

Congress intended for the OCS to be an economic development tool for the American people. The legislative history underlying a key statute governing OCS policy, the OCSLA, calls for natural resource development. The OCSLA explicitly recognizes the importance of OCS oil and natural gas production. The statute declares that it is

the policy of the United States that...the Outer Continental Shelf is a vital national resource reserve held by the Federal Government for the public, which should be made available for expeditious and orderly development, subject to environmental safeguards, in a manner which is consistent with the maintenance of competition and other national needs.

Furthermore, the 1978 amendments to the OCSLA found that "increasing reliance on imported oil is not inevitable, but is rather subject to significant reduction by increasing the development of domestic sources of energy supplies." The systematic imposition of federal moratoria on the OCS has actually contradicted congressional intent with respect to OCSLA, and that contradiction should be corrected. The federal government can affirm the congressional intent of how the OCSLA is to be used by renewing a commitment to use the resource as a tool for energy development, and enhanced energy security.

### **VII. Conclusion**

The MMS should include all 26 available leasing areas within its upcoming Five-Year Lease Plan for the OCS. Expanded OCS development will assure American prosperity while maintaining high environmental standards. Past policy rationales for existing moratoria are simply out of date. Through expanded development off the coasts of Texas, Louisiana, and within 100 miles of Florida waters, through the drilling of deeper wells, the OCS has played a growing role in U.S. natural gas and oil supply for more than 50 years. Technological advances not only helped increase and expand production, but also have enhanced safe operations that

protect the environment. Worldwide, virtually every other country with oil and gas resources is promoting investment in and developing its offshore resources.

The U.S. has an opportunity to improve its energy situation and continue to support economic growth, while providing consumers and businesses with the essential energy they need. Let's seize this chance to ensure a brighter future for all Americans by adopting a significantly more expansive OCS leasing program.

Thank you for the opportunity to comment on the upcoming Five-Year Lease Plan. If you would like more information regarding the NAM's position with respect to increased energy supply issues, please contact Keith McCoy at (202) 637-3175 or Bryan Brendle at (202) 637-3176.