

**EXPLORING ALL THE ENERGY OPTIONS AND
SOLUTIONS: SOUTH TEXAS AS A LEADER IN
CREATING JOBS AND STRENGTHENING THE
ECONOMY**

HEARING

BEFORE THE

**COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES**

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**EXPLORING ALL THE ENERGY OPTIONS AND
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MONDAY, FEBRUARY 13, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Corpus Christi, TX.

The committee met, pursuant to notice, at 9 a.m., at the Performing Arts Center, Texas A&M University Corpus Christi, 6300 Ocean Drive, Corpus Christi, TX, Hon. Darrell E. Issa (chairman of the committee) presiding.

Present: Representatives Issa and Farenthold.

Staff present: John Cuaderes, deputy staff director; Linda Good, chief clerk; Frederick Hill, director of communications and senior policy advisor; and Kristina M. Moore, senior counsel.

Chairman ISSA. The full committee hearing on “Exploring All the Energy Options and Solutions: South Texas as a Leader in Creating Jobs and Strengthening the Economy” will come to order.

The Oversight Committee mission is that we exist for two fundamental principles. First, Americans have a right to know the money Washington takes from them is well spent. And second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. Our job is to work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

Today, we will explore both the good that comes from natural gas and oil exploration and wind and the problems created by government and the impediments at times to that.

I'd first like to take a moment to thank the university. Texas A&M, a place I wanted to come to and thought that it wasn't in Corpus Christi until I found out there were multiple campuses, was very generous to provide this lovely hall today.

And I want to thank my colleague, Mr. Farenthold, for arranging this and for being born in such a beautiful part of Texas. Your parents did think ahead.

Briefly, energy is the life blood of our country's economy. No matter where you are in the energy debate, we all know that if you

take back all forms of energy, we are back to being in the stone age as a caveman.

Ultimately, all of the progress of mankind starts with leveraging energy. That energy warmed the early homes, but it also created the opportunity for leisure and thought and research and development.

In fact, today it's the, a tremendous amount of food is provided by very few using fossil fuels mostly to reap harvest from our land. It's the factories that turn out ever greater products more efficiently, less energy—or more energy in some cases, but certainly less human labor.

The truth is, without finding affordable energy, we will slip back as a society. And with 7 billion people on the earth, that problem is bigger than ever.

Until recently, America was a net importer. We made the assumption that in fact we would be importing ever more oil and ever more natural gas. And although our imports of oil fortunately have stemmed their ever increasing flow, the real good news for us, in addition to domestic oil, is the abundance of natural gas. People on the left and the right now talk in terms of the United States being the Saudi Arabia of natural gas.

Additional oil production is yielding even more natural gas, while improved fracking techniques have made natural gas reserves throughout the United States, both here in the south and all the way to our northern border, more abundant.

It has become so obvious that we are going to be a major producer and exporter of fossil fuels that even in the President's State of the Union, he took great recognition of the increases on his watch, and of course, the creation by DOE of hydraulic fracking during his presidency. Well, maybe that was slightly off.

I come to Texas today for two reasons. First of all, because when we held the hearing in Bakersfield, California, my good friend, Blake, was willing to come there and be—well, I think you did brag a lot about Texas.

Mr. FARENTHOLD. I did.

Chairman ISSA. He did. But in fact, he came with the wealth of knowledge that growing up here gave him. And it was, it was a great addition to our field hearing on the potential for oil and natural gas on very old fields in California that made us realize that there were many reasons to come to Texas, not the least of which was my colleague and friend on the committee.

Texas still ranks number one in crude oil, but a lot of what we're going to hear about today is the areas of growth in Texas in addition to oil, the natural gas reserves, the wind energy, and of course, the willingness by Texans to do oil refining and gas liquefaction.

So though we come here primarily to hear from our witnesses, we come with a great deal of research to know we've come to a place, to a State that is energy excited, energy friendly, and in fact where jobs in energy and the derivatives thereof have made this an area of low unemployment and a likelihood of even lower unemployment.

So with that, I'd like to recognize for an opening statement my good friend, colleague, a man I have only known for 1 year but who I really believe has changed the Oversight Committee, particularly because of his knowledge of computers, law, the constitution, and oh yes, energy, Blake Farenthold.

[The prepared statement of Chairman Darrell E. Issa follows:]

Talking Points for Corpus Christi, Texas Energy Field Hearing

- Energy is the lifeblood of a strong economy.
- Fortunately for the U.S., our combined energy resources are the largest on earth – eclipsing Saudi Arabia, China, and Canada combined.
- Advances in hydraulic fracturing, coupled with the development of horizontal drilling, are dramatically increasing our recoverable reserves of both gas and oil.
- US Government estimates show that America has about 1.4 trillion barrels of technically recoverable oil and 2.7 quadrillion cubic feet of natural gas.
- Thanks to new innovations, there is every reason to believe that today's estimates of reserves are only a fraction of what will be produced and delivered tomorrow.
- We are only limited by the government policies that those in Washington choose to adopt.
- As folks in this room know, Texas serves as an excellent example of how to maximize energy production, while respecting the environment.
- Texas is a national leader in both oil and gas production.
- In fact, Texas produces more energy than any other state in the Union.
- It ranks number one in crude oil production and Texas refineries account for one-fourth of the total amount of U.S. petroleum refining capacity.

- Texas also leads the country in natural gas production, producing approximately 30 percent of the nation's supply.
- Texas produces more natural gas than any other state, accounting for 6.8 billion cubic feet.
- The Eagle Ford Shale, here in South Texas, has seen an explosion in oil production.
- In 2009, just 94 drilling permits were issued to operate in that area. In 2010, the number of permits issued rose to over 1,000!
- This energy production has translated into thousands of good paying jobs.
- In fact, over a one-year period from June 2010 to June 2011, the oil and gas industry added over 28,000 jobs to the economy, making up almost 13 percent of job growth in the State over that period.
- While Texas is obviously a leader in conventional energy production, it also contributes to an all-of-the-above energy strategy. Texas also leads the country in unsubsidized wind energy production.
- Our Federalist system looks to states to be incubators of innovation and examples to be followed at the national level.
- Today we will look to the job creators of Texas to share their stories of what policies have been successful and to hear where the Federal government may be standing in their way.

Mr. FARENTHOLD. Thank you, Chairman Issa, for coming down here. We have a great story to tell in Texas, how with our regulatory environment being friendly and rational, our tax structure being friendly and rational, and the natural resources that God has blessed this State with, that we can be an example for the rest of the country in how we can safely and economically produce the natural resources that we have, be they oil, be they gas, be they wind, be they geothermal. We are a leader in the energy industry, number one in oil, in oil and gas, and we will continue to be the leaders.

And really, it's what this country needs right now, low cost energy, which we are now seeing not just in the shale sands, or the shale gas that we're producing here in Texas, but across the entire country. We're seeing plentiful and cheap energy. And that really gives us a competitive advantage in the United States, and especially here in Texas, with our proximity to this oil and gas and the infrastructure that we have in place.

You know, to build things requires energy. And our low energy costs can sometimes trump the lower labor costs in other parts of the world.

Now, you add to that some of the regulatory burdens that we face, well, maybe we can do something about those regulatory burdens. And I think we're going to hear a little bit about that today.

So I'm really happy we're able to take the Texas message to the rest of the country. I'm happy that we've got a great panel to educate the committee, create a record, that can be referred to as we look for what is right to do in America as far as energy goes.

So y'all didn't come to hear me talk. We came to hear from our panel of experts. So I'll yield back the remainder of my time.

Chairman ISSA. I thank the gentleman.

All Members will have 7 days to submit opening statements and extraneous material for the record.

We now will recognize our first panel. Ms. Elizabeth Ames Jones is the chairwoman of the Railroad Commission of Texas. And I guess without rail that coal wouldn't be exported and an awful lot of other things wouldn't.

Mr. FARENTHOLD. And the Railroad Commission in Texas regulates the oil and gas industry. It's not—it's counterintuitive.

Chairman ISSA. No, no, it's not counterintuitive, it's government.

Mr. Charif Souki is chief executive officer of Cheniere Energy, Inc., and a long-time participant in the energy industry, first—and I will say this if he doesn't get to it—first in the idea that we would import, and now in the idea that we will successfully export natural gas.

And Mr. Jeff Weis is executive vice president of Orion Drilling Company, LLC.

Pursuant to our committee rules, you know the drill. Would you please rise to take the oath before your testimony and raise your right hands?

[Witnesses sworn.]

Chairman ISSA. Let the record indicate all three witnesses answered in the affirmative.

And please have a seat. Thank you.

This hearing is still an official congressional hearing with all the same rules, but we came here to hear you. So the two things I would say is, although lights will come on and there's a guideline that implies 5 minutes, we're not going to cut you off exactly at the end of 5.

Additionally, your entire written record, written statement is in the record, so use the 5 minutes for summarizing and anything else you want to say, and then hopefully we'll have a healthy debate in which our questions match your answers. That is critical, you know, that we have questions for their answers.

With that, well, ladies first. Ms. Jones.

STATEMENTS OF ELIZABETH AMES JONES, CHAIRMAN, RAILROAD COMMISSION OF TEXAS; CHARIF SOUKI, CHIEF EXECUTIVE OFFICER, CHENIERE ENERGY, INC.; AND JEFF WEIS, EXECUTIVE VICE PRESIDENT, ORION DRILLING CO. LLC

STATEMENT OF ELIZABETH AMES JONES

Ms. JONES. Thank you, Chairman Issa and Congressman Farenthold. It's wonderful to be here today, and I appreciate the opportunity to testify here. And I am delighted to represent the interests of Texas and our sister oil- and gas-producing States who are effectively regulating oil and natural gas exploration and production activities, including hydraulic fracturing and horizontal drilling within our State borders, in our State waters, and on our lands, privately owned and State-owned as well.

And I might say, Congressman Farenthold, thank you for bragging on us, but it ain't bragging if it's true, as we say in Texas.

In fact, we are the country's number-one oil- and natural-gas-producing State. We produce—over 30 percent of all the natural gas that comes up out of the ground in America comes up out of the ground in Texas, not too far away from where we sit today. And over 20 percent of all the crude oil that comes up out of the ground in the great country of America comes from the State of Texas.

And in fact, that crude oil production has turned around, thanks to the renaissance, if you will, of drilling due to hydraulic fracturing and horizontal drilling techniques. Very, very exciting what the future bodes, not just for our State but for our country in energy security.

The regulation of oil and gas activities in Texas—Chairman, I'm sorry to say, only in Texas would you have an agency that is named that has absolutely nothing to do with its mission statement. And the Railroad Commission has nothing to do with trains anymore. We last—we lost the little bit of oversight we had of the rail industry in 2005. So we are purely and simply the State's energy agency, from—

Chairman ISSA. You know, in any other State, what they would do is make a new agency and not close the old one—

Ms. JONES. Exactly.

Chairman ISSA [continuing]. That no longer had a job.

Ms. JONES. Exactly. We don't want to do what they do in Washington, DC, and add on layers and layers.

But in fact, everything related to energy production, from the ground below, is under the purview of the Railroad Commission of

Texas. We've regulated these activities over 100 years, since that day in 1901 when Spindletop came in so big down the coast in the salt dome. The Railroad Commission not long after that was involved in creating, to the extent that at the time there was one, the energy economy that is Texas.

We have oversight of over 1 million wells that have been drilled, and the Railroad Commission of Texas is responsible for more oil and natural gas wells than any other entity in the nation.

Currently, over 45 percent of all the rigs running in America are running right here in Texas. So yes, we have a lot of natural resources, not just oil and natural gas, but we, we preserve and protect our other natural resources, like water, and we have the regulatory processes in place to manage them properly.

My goal, as a chairman of the Railroad Commission of Texas, is very clear, or my goals, and those of my fellow two commissioners: The protection of our environment; the prevention of the waste of energy, which is unique to Washington, and I'll explain that in a minute; and the protection of the correlative rights of mineral owners, and the safety of our citizens, of course.

And the intended consequences of all of these State-centered goals are win-win, not just for our citizens, not just for the industry and the companies, like those here today, but also for the environment as well.

So I'm giving you these, laying this foundation for future questions so that you have a good perspective of what the Railroad Commission of Texas really does and the contributions we are making to our sister States and their regulatory agencies as well.

Our most important protection regime in place is that of water, and our strong regulatory regime has helped us avoid a single proven case of groundwater contamination occurring as a result of hydraulic fracturing.

In fact, I was testifying to Congressman Ralph Hall's committee earlier in the spring in Washington, DC, and I said then and I say now, it's virtually, or to the extent that—you would be more likely to hit the moon with a Roman candle than you would to contaminate groundwater from hydraulic fracturing so many miles below the earth.

Unfortunately, there is at least one Federal agency, the Environmental Protection Agency, that takes another position. And what it's seeming to me, my opinion and the opinion of very many people, that they prefer to stir fear by making preliminary assertions and then retreating from those assertions once the science rules them inaccurate.

And hopefully, as we move forward in this meeting, and you, when you get back to Washington, I hope that you can do something about that.

But as a steward of Texas energy resources, the prevention of waste is also important. And what that means is that we statutorily are required to prevent the waste of the mineral resources, and that means we cannot allow the hydrocarbon to be left in the ground, or wasted, if it can be responsibly produced, according to our rules, once a lease is signed.

And this means that operators cannot be prevented from accessing their private property they have leased, and that royalty own-

ers have a right to enjoy the use of their private property, which is oil and natural gas, in the case of the Railroad Commission of Texas.

And billions of dollars change hands between parties, including the taxes, severance tax paid on production that goes to State coffers, the goods and services at various levels.

And this is something unique to the Railroad Commission of Texas, unique by Washington's standards anyway, and it's contrary to what Federal agencies and the laws like the Endangered Species Act, which is used by U.S. Fish and Wildlife Service in a manner that kills jobs, halts growth, and stifles the economic development in the State.

In fact, our mission is to protect the private property rights of the owner by allowing them to reap the benefits of the use of private property that maybe their grandfather or great-grandfather purchased so very long ago.

So the reliable regulatory climate we have at the Railroad Commission is of highest importance to investors who produce the jobs for this State by investing in deals and drilling for oil and natural gas. And one of those is our commitment of issuing drilling permits in a timely manner, 1 to 3 days.

Now, in doing that, we also take very seriously our inspection of sites. We take enforcement actions against bad actors, and we're well equipped to oversee all of the drilling activity, because we have strong rules and we have field offices and inspectors on the front lines across the State.

And this is in, of course, direct conflict or contrary to the notion that one size regulatory climate from whatever Washington Federal agency can do for the States. We certainly live here. We work here. We play here. We raise our family here. And we are best equipped to oversee the responsible production of our own energy resources.

The Railroad Commission had some dealings with the EPA recently, and we wrote a letter in response to what we were seeing coming out of an EPA's draft report on groundwater contamination in Pavillion, WY.

In this, we saw a template, a beginning of a template anyway, of method of operation, an MO of the EPA, as I said, to create some kind of fear and hysteria, and then have to back off because they didn't have the science to back it up.

And we recently sent a letter to the EPA in this Pavillion—weighing in from the Railroad Commissioners' perspective on how they approached this Pavillion, WY, Draft Report that in fact alleged contamination and very well may have been contamination by the EPA itself in the wells they drilled to try and assess contamination.

We also had a recent case with a company in Texas called Range Resources, and the EPA chose to question our ability to regulate matters within our jurisdiction in that case, too, in central Texas. And it was a contested issue of alleged groundwater contamination by a water well owner in central Texas, and they called in the EPA, who came in and issued an emergency action to shut down the operator from drilling.

And in fact, we brought the parties in to the Railroad Commission to assess scientifically what the real facts were. The EPA chose not to show to defend their position. The other party appeared and presented their case. And with our ruling, my fellow commissioners and I asserted our jurisdiction and authority to ensure regulatory certainty, due process for the parties, and decisions found based on sound science and fact in the Texas oil or natural gas patch.

Sound science, fact and deliberative due process are the principles we stand by to do business. And those are the kinds of principles that the Texan voter expects and demands of this regulatory body.

I was recently again at the Department of Energy's Science Advisory Board Subcommittee on Shale Gas. I'm sure you are aware of that. And I went to testify to that panel. And the take-away that I got as I left Washington, what I noticed and had been keeping somewhat track of, it's hard to do, because there are a lot of them, the numerous amount of proposed studies coming out of Washington, DC, on hydraulic fracturing.

I believe that it is a misuse of taxpayer dollars. I can talk to you about the Federal entities—

Chairman ISSA. We'll get to that during questions and answers.

Ms. JONES. Yeah. Well anyway, it's a list that's so long, between the Center for Disease Control and Prevention and the Agency for Toxic Substances. This has been studied and studied, and I look forward to discussing how we can alleviate those kinds of misuse of dollars. Thank you.

Chairman ISSA. Thank you.

Mr. Souki.

STATEMENT OF CHARIF SOUKI

Mr. SOUKI. Chairman Issa, Congressman Farenthold, thank you very much for having me here today. Corpus Christi, happy to be back. It's been a few years. We've been here with very large projects in the past, but somehow the testimony to what long term modeling does can be awfully long. But we're back with another idea now, and we're going, as the chairman said, the other direction.

Mr. Chairman, you've mentioned that the shale revolution is starting to be accepted even by President Obama now, who, to his credit, is embracing the fact that we have a, really an abundance of energy in this country. I think the full extent of how abundant and what kind of new situation is still not very well understood. The assumption, in fact, is that the United States has now become the low cost energy producer on a global basis.

It is not limited to natural gas. It actually goes to oil as well. And we find ourself in a very strange set of circumstances where we are, as you mentioned, the Saudi Arabia of the natural gas business. But I would also venture to say that we are energy abundant in a lot of different ways.

But we do this without an energy policy. And we do this with a set of regulatory frameworks that are still based on the fact that we need to import a tremendous amount of energy for this country.

So the regulatory framework and the reality on the ground, as new as it is, are totally disconnected.

What has happened in the last 2 years is that the effect of being energy abundant is starting to get noticed. We are now an NGL exporter for the first time. We are exporting propane and butane, when 2 years ago we were importing propane and butane.

Last summer we also became a net oil product exporter for the first time in many decades. We are exporting 50 percent more coal in 2011 than we did in 2010, simply because natural gas has become so abundant and cheap here, it's creating an opportunity to export coal.

So on a natural—on a fundamental basis, we're becoming an energy exporter increasingly. And in another few years, we will be a net exporter of natural gas as well, as long as the regulatory framework follows.

The full impact of what this means is not completely understood or grasped yet. I hear much about how the fact that we're a low cost energy producer is bringing industries back to the country of the United States, mostly petrochemicals initially, also car manufacturers.

This is a derivative product. The first and primary product is much more direct than this. We are drilling with 15 percent more rigs than we were last year. And this is a phenomenon that goes on.

What it means is that we're using 15 percent more people to drill wells. There is no other industry in the country that is growing and employing people in that kind of growth mode, nothing else that I know in this country.

Furthermore, we are manufacturing more rigs because we need horizontal rigs. So the manufacturing industry benefits directly from the fact that we need those rigs.

In every community where we are actually drilling more wells, we are supporting the housing industry, the lodging industry, the food industry, the service industry, the trucking industry, and on and on.

So the impact of the fact that we've increased the number of rigs in this country for 3 or 4 years in a row now is a direct driver of the unemployment reduction in this country. The 8.3 percent unemployment is directly related to the number of wells and to the health of the energy industry.

So I would say that we are very fortunate that we have a leading indicator. And my recommendation to policymakers will always be why should they count? If the rig count is increasing, the country is doing pretty well. If the rig count starts decreasing, we have a problem, see what you can do about it.

Here in Texas, it's even more true. In south Texas, in the Eagle Ford, we are using 60 percent more rigs than we did last year. So our economy here is at full employment. We're having a hard time finding people, getting hamburgers in restaurants, finding hotel rooms for visitors, and developing the infrastructure, the infrastructure contained here, in order to continue to perpetuate the growth.

To the north, in the Permian Basin, the number of rigs has increased last year by 20 percent. This is a phenomenal opportunity,

and it's true in other areas of the country as well, such as North Dakota, most of Oklahoma, northern Pennsylvania, soon to be Ohio, eastern Colorado. This is a phenomenon that is on a national basis today.

There are 30 to 32 States now that can be energy producers. And the critical thing is to be able to develop a demand response for the abundance of riches that we have.

The regulatory framework is hopelessly behind. We have directly to involve a number of agencies, the most prominent of which are the Federal Energy Regulatory Commission, the Department of Energy, the EPA, and the Department of Transportation.

They all have their own goals. They don't cooperate with each other very well. It takes 60 days to drill a well. It takes 18 months to obtain a permit before you start construction to move the product to market.

If our upstream industry is growing at 15 percent per year, the infrastructure that this country needs is going to fall hopelessly behind. And I would argue it has already done so.

In addition to coordinating these agencies, we also have to be consistent with other agencies. For example, State, Commerce, the U.S. Trade Representative, because we cannot have policies in this country that are inconsistent on a global basis.

For example, we have just maintained that other countries do not have the right to restrict the export of their commodities. And this is following an action that was generated by the United States, in conjunction with the European Union and Mexico, and filed with the World Trade Organization, where we were successful.

It is very difficult in that context to have a different agency maintain that we're going to restrict the export of our own commodities. And therefore, not only do we have to coordinate some of the agencies, we also have to make sure that the policies that are declared by these agencies are consistent with the statute of what the policies of this country and this administration are.

We have been in a position at Cheniere Energy to try to promote the ability to export natural gas from the United States to the rest of the world because it is our position that the demand for natural gas cannot keep up in the United States with the abundance of production that we have, and in fact, with the gas that is already standing in the country that cannot go anywhere.

We have been successful with the first project at Sabine Pass to send gas to companies in the United Kingdom, in Spain, in Korea and in India.

The implication of the fact that we can become an energy exporter on a global basis has profound implication for the dual position of the United States in the global scene. It will have impact on gas producers around the world, including Russia, and gas consumers around the world, including China. And these benefits can only be derived if we have a clear energy policy that lets the market do what the market will do.

We are trying to do the same thing here in Corpus Christi. We have a site that we have owned for 6 years, Mr. Chairman has mentioned. Initially, we viewed it as a potential energy importing facility, but it really does work in both directions. And we would

like to develop it as an export facility to take advantage of the riches that the Eagle Ford is generating for this area in general.

I will say that when we produce natural gas, we produce condensates. We produce ethane, propane, butane, along with it, and the market for those products is saturated.

Condensates will always be attractive. All the other C's are not. The propane, butane, ethane and methane have no outlet. So we need to find something to do with that gas in order to continue with the prosperity that could be generated with this. Thank you very much.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Souki follows:]

Thank you for the opportunity to address the committee. My name is Charif Souki, Chairman and CEO of Cheniere Energy, Inc., based in Houston, Texas. I would like to focus my remarks on the astonishing transformation taking place in the U.S. oil and natural gas industry, the implications of these changes for America's economy and strategic interests, and why it is critical that government's oversight of the industry must quickly evolve to match the pace of growth underway in America's energy patch.

The United States is reaping enormous economic and strategic benefits from breakthrough technologies pioneered over the last decade by the domestic oil and gas industry. Advancements in guided horizontal drilling and hydraulic fracturing have opened prolific new hydrocarbon resources in tight unconventional geologic formations such as shale rock to low-cost development.

Natural gas was the initial focus of these drilling innovations, and the subsequent impacts of shale gas development on the U.S. economy have been profound. Since 2005, U.S. natural gas production has grown 27% to an estimated 23 trillion cubic feet in 2011, the highest production levels in our country's history.¹ Domestic natural gas production has grown at over twice the rate of demand during this period, resulting in a dramatic reduction in America's reliance on foreign suppliers. As a result of newly abundant shale supplies, U.S. wellhead natural gas prices have fallen from the \$8 per million Btu (MMBtu) price level four years ago to \$2/MMBtu at the start of 2012, the lowest prices in over a decade. Affordable natural gas is providing an economic boost to U.S. consumers and saving Americans an estimated \$44 billion per year in lower fuel bills.²

As natural gas prices have fallen, the oil and gas industry is refocusing its efforts on identifying unconventional targets rich not only in natural gas but also in higher-priced oil and petroleum liquids, such as condensate and natural gas liquids (NGLs). These same enhanced drilling technologies are now being applied in emerging unconventional "liquid" plays, such as the Bakken Shale in North Dakota, as well in traditional oil-producing regions such as the Permian Basin in West Texas.

It remains early in this shift to liquids, but the results so far are encouraging. American oil production is growing once again after 20 years of decline. The U.S. produced over 5.8 million barrels per day of crude in November 2011, the highest

¹ Data sourced from US Energy Information Administration's January 2012 Short-Term Energy Outlook, http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf

² "The Impact of Natural Gas Abundance on U.S. Consumers," Navigant Consulting Inc., August 26, 2011.

production levels in nearly a decade.³ Production of NGLs such as ethane, propane and butane are also at record highs.⁴

The implications of this turnabout in America's energy production are astonishing. First, the United States has a real opportunity to become energy independent in the next decade, thereby advancing American security interests around the globe. The United States has become a net exporter of coal, NGLs and refined oil products such as fuel oil and gasoline. By mid-decade, the U.S. is on track to become a net exporter of natural gas, and by the end of the decade the U.S. could cease requiring imports of foreign crude.

Second, the boom underway in American energy is driving the country's recovery from recession while laying the groundwork for a more competitive future U.S. economy. The number of rigs deployed in the U.S. is approximately 15% higher than a year ago.⁵ No other industry in the United States is growing at a 15% annual rate. In addition to the direct stimulus, the emergence of America as a low-cost energy producer is driving a renaissance in U.S. manufacturing. Industries such as steel, automobiles and chemicals are globally competitive once again.

The benefits of America's energy revolution are clear here in the state of Texas. The Eagle Ford Shale is emerging as world-class resource play in South Texas, where investment has surged since commercial discovery three years ago. At the end of January 2012, there were 204 rigs drilling for oil and natural gas in the Eagle Ford, an increase of 63% from levels a year ago.⁶ The University of Texas-San Antonio estimates that at year-end 2010, the Eagle Ford supported approximately 12,600 jobs and added \$2.9 billion in total economic output to the regional economy.⁷ By 2020, the activity from the Eagle Ford will create \$21.6 billion in total economic output and support nearly 68,000 full-time jobs in the region.⁸ This revolution is also driving investment in new shale plays in the Permian Basin in West Texas, where new technologies have revived oil and gas production in a region once considered

³ Data sourced from US EIA, http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_m.htm

⁴ Ibid, http://www.eia.gov/dnav/pet/pet_pnp_gp_dc_nus_mbbldpd_m.htm

⁵ A total of 1,997 rigs were drilling for oil and gas for the week ended January 27, 2012, an increase of 258 rigs, or 14.8% from a year ago, according to Baker Hughes

⁶ Smith Bits rig count, 2010-2012. <http://stats.smith.com/reports/Default.aspx>

⁷ "Economic Impact of the Eagle Ford Shale," Center for Community and Business Research, The University of Texas at San Antonio Institute for Economic Development. Published Feb. 2011.

⁸ Ibid.

mature. Approximately 300 rigs are currently operating in West Texas, a 20% increase from a year ago.⁹

What both the Permian and Eagle Ford have in common is that industry investment is being driven by their vast resources of recoverable liquid hydrocarbons, including light and heavy crudes, condensate and NGLs. While natural gas has become an afterthought to many producers due to low wellhead prices, these shale plays nevertheless still produce natural gas in association with the liquids, often in significant quantities. This associated natural gas increasingly is being flared at the wellhead where midstream infrastructure is not in place to capture the methane, representing a missed opportunity for America to monetize a clean-burning fuel and extend its influence in global energy markets.

For America to take full advantage of its new energy resources, significant new infrastructure will be required to gather, process and transport these new sources of hydrocarbons sources to market. Multiple federal agencies play a role in the permitting of this new infrastructure, including the Federal Energy Regulatory Commission, the Environmental Protection Agency, the Department of Energy and the Department of Transportation. It is essential that these agencies coordinate their activities as infrastructure projects are evaluated and provide visibility of the regulatory process to industry participants. Our regulations must keep pace with the growth America is experiencing in its oil and gas fields to avoid wasting a golden economic and strategic opportunity for the country.

My company, Cheniere Energy, Inc., is playing a direct role in the development of the infrastructure required to expand markets for America's energy. Cheniere has launched a project to add equipment to our existing liquefied natural gas (LNG) import terminal in Sabine Pass, Louisiana, which would provide the ability for the first time to export natural gas from the Lower 48 as LNG. To date, we have signed contracts to sell American natural gas to four customers from around the globe, including BG Group from the U.K., Gas Natural Fenosa from Spain, Gail (India) Ltd. from India, and Korea Gas Corp. from South Korea. Our liquefaction project at Sabine Pass represents an approximate \$10 billion investment in the Gulf Coast region that will directly employ 3,000 workers during construction and support an additional 50,000 jobs in the natural gas industry as domestic activity expands to support exports. Cheniere has proposed a second LNG export project at a site in

⁹ Smith Bits rig count, 2010-2012. <http://stats.smith.com/reports/Default.aspx>.

Corpus Christi, Texas, that would seek to find markets for growing natural gas volumes being produced in association with oil and petroleum liquids in the Eagle Ford shale. We anticipate similar employment and investment levels for the South Texas region if we are successful in building this project. The Corpus Christi LNG terminal will compliment oil development activity in the Eagle Ford and enable the responsible development of America's new wealth of energy resources.

Chairman ISSA. Mr. Weis.

STATEMENT OF JEFF WEIS

Mr. WEIS. Mr. Chairman and members of the committee, good morning. My name is Jeff Weis. I'm executive vice president of Orion Drilling Company, a Corpus Christi-based land rig drilling contractor, currently operating thirteen drilling rigs in south Texas.

Thanks to you, Chairman Issa and committee, for traveling to Corpus Christi to explore our recent job growth, a direct result of growth in the Energy Sector.

Understanding the positive impact the Energy Sector has on south Texas employment should serve to strengthen the resolve of Federal and State policymakers to focus on a consistent and comprehensive policy to promote energy development across the United States.

I would also like to thank Corpus Christi Regional Economic Development Corp. for including Orion Drilling in this process, and Texas A&M Corpus Christi for hosting this important hearing.

I began my work, oil and gas career in 1978 with Halliburton's IMCO Services. At IMCO, I was trained in fluids management. I continued in fluids management in various capacities, including division technical advisor and district manager until 1995, when I joined Pioneer Drilling, a four rig drilling company based in Corpus Christi.

At the time, Pioneer was truly that, a pioneer in adopting new technologies to improve the efficiency and quality of drilling.

After leaving Pioneer in 2003, I joined Wayne Squires to create Orion Drilling. Initially, we were a single rig drilling company, with 23 employees. As our reputation as best-in-class contractor with state-of-the-art equipment continued to spread, we were able to parlay a single rig into a company that operates thirteen rigs in south Texas and is opening a new division with three new-build rigs in DuBois, Pennsylvania, in 2012.

Our focus on providing quality equipment with the latest technology makes Orion unique. A hallmark of Orion's unique approach to the drilling business is our focus on the softening impact of economic cycles and their impact on oil and gas drilling activity.

From those 23 employees in 2003, Orion has grown to a staff of over 550, with further growth planned in 2012, as we continue to build new drilling rigs and begin our operation in Pennsylvania. Our employees span from skilled rig crews to a host of petroleum, mechanical and process engineers.

Our commitment to growing a quality team is also apparent in the fact that Orion Drilling is one of only two drilling contractors that hold the full array of American Petroleum Institute certifications.

We are proud of both the symbolic and practical meaning of these qualifications, as they provide us with the opportunity to guarantee quality and safety to our customers and attract the best and brightest rig employees, engineers and construction professionals to our team.

Not only do we recognize the positive impact of good energy fundamentals on our business, we also recognize the importance of positive public policy to maintain Energy Sector growth.

With oil and gas as one of the primary drivers of the Texas economy, our State and local governments have provided a positive policy framework in which to operate. However, the need for a consistent, clear and comprehensive energy policy on the Federal level is paramount if our industry is to continue its quest to make the United States more energy independent, responsibly develop our natural resources, and continue to provide the fuel that drives the American economy.

Conversely, the lack of a consistent energy policy and the confusion surrounding current Federal policies, mandates and regulations will result in growing uncertainty that very well could put our recent growth in natural resource development and employment at risk.

The energy industry is comprised of thousands of companies just like Orion, businesses that are looking to provide fuel for our economy, jobs for our communities, and be responsible corporate citizens and stewards of our lands and environment.

The best way to assure that continues is for the Federal Government to articulate a clear and consistent energy policy that provides assurances our industry can meet the energy needs of our country for decades to come.

Mr. Chairman, thank you for the invitation to appear today, and I'll be glad to answer questions at the appropriate time.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Weis follows:]

Mr. Chairman and members of the Committee. . .

Good morning, my name is Jeff Weis. I am Executive Vice President of Orion Drilling Company, a Corpus Christi based land rig drilling contractor, currently operating 13 state of the art drilling rigs in South Texas.

Thank you to Chairman Issa and the Committee for traveling to Corpus Christ to explore the recent job growth in South Texas, a direct result of growth in the Energy Sector. Understanding the positive impact the Energy Sector has on South Texas employment should serve to strengthen the resolve of federal and state policy makers to focus on a consistent and comprehensive policy to promote energy development across the United States.

I would also like to thank the Corpus Christi Regional Economic Development Corporation for including Orion Drilling in this process and Texas A&M Corpus Christi for hosting this important hearing.

My resume is included in the printed testimony and has been submitted for the record. To provide context for my comments, I was born just outside of Pittsburgh Pennsylvania and obtained a degree in economics from the University of Pittsburgh in 1977 and a MBA from Texas A&M CC in 1987.

I began my oil & gas career in 1978 with Halliburton's IMCO Services division. At IMCO I was trained in drilling fluids management. I continued in drilling fluids in various capacities including division technical advisor and district manager until 1995. When I joined Pioneer Drilling, a 4 rig drilling company based in Corpus Christi. At the time, Pioneer Drilling was truly that, a pioneer in adopting new technologies to improve the efficiency and quality of drilling. For a number of years, Pioneer had the only all electric fleet of rigs in South Texas.

After leaving Pioneer in 2003, I joined Wayne Squires to create Orion Drilling. Initially, we were a single rig drilling company with twenty-three employees, drilling wells either on day work or through turnkey contracts. As our reputation as a best in class contractor with state of the art equipment continued to spread, we were able to parlay a single rig into a company that operates 13 rigs in South Texas, and is opening a new division with three new-build rigs in Dubois Pennsylvania in 2012.

Our focus on providing quality equipment with the latest technology makes Orion unique. A hallmark of Orion's unique approach to the drilling business is our focus on softening the impact of economic cycles and their impact on oil and gas drilling activity. Through offering quality rigs on multiyear contracts, we not only provide a level of economic certainty to our customers, we assure Orion team members of stable employment and opportunities for advancement. From those twenty-three employees in 2003, Orion has grown to a staff of over 550 with further growth planned in 2012 as we continue to build new drilling rigs and begin our operation in Pennsylvania. Our employees span from skilled rig crews to a host of petroleum, mechanical and process engineers.

Our commitment to growing a quality team is also apparent in the fact that Orion Drilling is one of only two drilling contractors that hold the full array of American Petroleum Institute certifications. We are proud of both the symbolic and practical meaning of these qualifications as they provide us with the opportunity to guarantee quality and safety to our customers and attract the best and brightest rig employees, engineers and construction professionals to our team.

While we like to believe our success has been the result of hard work, attention to detail and an overzealous focus on quality. We know that recent developments in oil and gas exploration techniques and the acceleration of shale drilling have provided tremendous opportunities for companies like Orion. There is little doubt that new exploration horizons have benefited Orion as well as energy companies throughout South Texas, a gift for our state and region at a time where many other regions of our country are struggling.

Not only do we recognize the positive impact of good industry fundamentals on our business, we also recognize the importance of positive public policy to maintain energy sector growth. With oil and gas as one of the primary drivers of the Texas economy, our state and local governments have provided a positive policy framework in which to operate.

However, the need for a consistent, clear and comprehensive energy policy on the federal level is paramount if our industry is to continue its quest to make the United States more energy independent, responsibly develop our natural resources and continue to provide the fuel that drives the American economy.

Conversely, the lack of a consistent energy policy and the confusion surrounding current federal policies, mandates and regulations will result in growing uncertainty that very well could put our recent growth in natural resource development and employment growth, at risk.

Contrary to some popular rhetoric, the energy industry cares deeply about the future of our country's environment and, as such, welcomes a federal energy policy that consistently and fairly balances our energy needs with the need to conserve and protect the environment and other natural resources.

The energy industry is comprised of thousands of companies just like Orion: Businesses that are looking to provide fuel for our economy, jobs for our communities and be responsible corporate citizens and stewards of our lands and environment.

The best way to assure that continues is for the federal government to articulate a clear and consistent energy policy that provides assurances our industry can meet the energy needs of our country for decades to come.

Mr. Chairman, thank you for the invitation to appear before you today. I am happy to answer questions at the appropriate time.

Chairman ISSA. And I'll begin with just a quick, quick question, and I'll go in reverse order since you've got the most current thing in my brain here.

You're drilling a lot of wells. Oil? With natural——

Mr. WEIS. Mainly oil——

Chairman ISSA. With natural gas?

Mr. WEIS. Mainly oil. Natural gas is a byproduct of most of the——

Chairman ISSA. What do you do with the natural gas out of most of those wells? Being flared?

Mr. WEIS. Some of it's being flared, because the pipelines are not in place.

Chairman ISSA. Is that a permit process, or is that infrastructure? Or is it a combination? How long will we burn one of the most precious forms of energy, typically, from the time that you are able to begin harvesting to the time that you're able to actually harvest the natural gas?

That's one of the areas that concerns me in both State and Federal regulation is how efficient are we in at least being part of the solution on that?

Mr. WEIS. Well, I think that a lot of the wells that you see flaring in south Texas have a low amount of natural gas with the liquids. The liquids are being stripped out. And so we have to look at the economics——

Chairman ISSA. The efficiency of how much there really is?

Mr. WEIS. Yes. And you know, there are some areas where pipelines aren't in place.

Chairman ISSA. But in a perfect world, we'd harvest every bit of that natural gas, wouldn't we?

Mr. WEIS. I agree with that.

Chairman ISSA. The——by the way, what caused you to pick the home of DuBois Brewing Company for your new headquarters? I've been to DuBois, and except for DuBois Brewing Company, it's pretty much just a place on Interstate 80, isn't it?

Mr. WEIS. That's one of the main reasons, it's on 80, which we feel is going to give us access to Ohio.

Chairman ISSA. So it's right in the center of a region in which both to the west and east there's huge resources of primarily natural gas?

Mr. WEIS. And we feel a huge opportunity for not only us but for the country.

Chairman ISSA. So as a Texan, you're willing to invest in Ohio and Pennsylvania?

Mr. WEIS. Yes, and the reason is——

Chairman ISSA. I want to thank you as a native Ohioan.

Mr. WEIS. Well, what we feel is that that is the largest gas field in the world. And, you know, the country's going to need natural gas. And the Utica looks like it's going to have liquids. If you look at years past, the northern part of Pennsylvania and Ohio have produced a lot of oil, and there are some refineries up there. So——and there are pipelines up there, too. So——

Chairman ISSA. They used to bring natural gas north.

Mr. WEIS. Right. And you know, we're looking to expand in what we consider the best basins, in West Texas, of course, south Texas, and we like the Marcellus.

Chairman ISSA. Have Ohio and Pennsylvania begun to embrace what you're trying to accomplish for them, as much as Texas?

Mr. WEIS. Well—

Chairman ISSA. Or is that too high a hurdle?

Mr. WEIS. No, I think what's happening is that 30 or 40 or 50 years ago when we produced coal—I'm from Pennsylvania. We produced coal in Pennsylvania, and we didn't do a good job of—

Chairman ISSA. Strip mining with—

Mr. WEIS. Yeah.

Chairman ISSA. You know, puddles of water.

Mr. WEIS. We do a nice job now, but back then we didn't. And I think people remember that. And they're afraid of what oil and gas will do.

And as Ms. Jones said, there are a lot of inaccuracies, especially in that part of the country. You know, New York has banned fracking. I think New Jersey is getting ready to ban fracking. But it's interesting. Where will they get their energy?

Chairman ISSA. We'll get to whether or not you sell them what they won't produce domestically.

I will note that I did a little research for this project, and Pennsylvania land was selling for \$7,000 an acre, agricultural land, some of it with coal underneath. The typical rate for a license right now is \$6,000 an acre just for the mineral rights, basically, because of the potential for natural gas.

So it is interesting that you could basically buy land 5 years ago and sell just the mineral rights for pretty much what you paid for it. That's that big a difference.

Mr. Souki, you mentioned something that, as a free trader, you mentioned that the WTO had found, the World Trade Organization, found that in fact it was a violation of the law when I guess China wanted to withhold bauxite. Is that right?

Mr. SOUKI. That is correct.

Chairman ISSA. And I just want to make sort of a record clear, America has been the largest exporter of food for a long time. We didn't question, as we fed the world, whether or not we should hoard food, did we?

Mr. SOUKI. That is also correct.

Chairman ISSA. And isn't it true that no member of the oil cartels, basically OPEC, can even be a WTO member, because running a cartel is inconsistent with the WTO?

Mr. SOUKI. That is my understanding.

Chairman ISSA. So essentially, if we want to be a free trade civilized nation, we, by definition, have to not act the way OPEC has acted toward us in the world market.

Mr. SOUKI. Well, you've mentioned the case of our intervention with the World Trade Organization against China for bauxite, and I think China, we just have to change two words, "China" to the "USA," and "bauxite" to "natural gas," if we tried to restrict the trade. And the losses would be in both directions.

Chairman ISSA. It is sort of amazing to me that we were all prepared to import huge amounts of natural gas from Qatar, and con-

tinue importing oil from around the world, and now that we have a chance to have an abundance, we're not willing to exchange that.

So I've just got a couple more quick questions. One last one, because it hit me, you mentioned the excess in propane, and I'd like to make the record clear. Isn't propane pretty much the easiest fuel to put into an automobile? Isn't it the easiest conversion? Do you pretty much just put a tank in the trunk and plumb it?

Mr. SOUKI. I wouldn't know about that.

Chairman ISSA. But you, so you haven't looked at the potential for diverting the propane? Well, perhaps our first witness can do that.

Mr. SOUKI. No. I'll make a note that maybe that's another business model that we'd like to look at. But thank you, Mr. Chairman.

Chairman ISSA. Well, I happened to grow up in Cleveland, Ohio, which is halfway between DuBois and nowhere, I guess, but—and it was interesting because delivery trucks ran on propane, liquefied.

Mr. SOUKI. Yes.

Chairman ISSA. The liquefied gases have a tendency to be the easiest ones to convert. That's why we all have—that's why we all have those gas ranges. It's just easy to do.

Well, Ms. Jones, you had, you have some very interesting testimony. I think the area that I'm most concerned about, and I'll ask you the tough questions—you can answer the propane one if you'd like—but you also have responsibility for licensing and safety in your State waters, your territorial waters.

Post—and our committee did extensive hearings and research into the post-BP spill. Would you like to tell us how you take that, how you approach drilling safety in the water? And any comment you want to make in the intervening period between BP and today and how you've adjusted to it would be appreciated.

Ms. JONES. Thank you, Chairman Issa, because that—

Chairman ISSA. You covered everything else in your opening testimony.

Ms. JONES. Yeah, I did. Well, I squeezed it, and there's so much more.

Quickly, I just would like to say that as far as flaring natural gas, they have to get a permit from the Railroad Commission, because it is a precious commodity, and they can roll it over if they need to. But any flare, flaring that's going on has been approved by the Commission. And we do have a lot of permits to flare, because of the shortage of the infrastructure to get the natural gas to market.

A little bit on the, the economics of the Eagle Ford is that the drillers and the operators, they, the companies will go and find the oil rich regions, the oily parts of it, of course, because of the economics and the price right now, and they're trending away from the natural gas areas of the Eagle Ford.

But there were still contracts they had with, for their leases, and some of them have to go ahead and drill. And so this is where government can come in and at least avoid hurting the equilibrium that is going on by putting more and more regulations in front of a company that is trying to make the market work with the property owner, the natural gas lease owner, mineral owner.

So flaring, approved by the Railroad Commission, we watch that very closely. We're very concerned about the infrastructure, the lack of, and we also permit the pipelines that are laid in the Eagle Ford shale.

And propane is a great fuel, and Texas is very rich in propane. And in fact, the Railroad Commission lets grants to change over school buses to propane-powered school buses and vehicles.

And so you were right on when you mentioned propane. But natural gas also has a tremendous role to play in the fueling of fleet vehicles. So to the extent that the market will go ahead and is ready for a transformation to natural gas fueled vehicles, it's—we're just on the cusp of doing that.

We had a, the first president of the Republic of Texas, Sam Houston, who was so smart and had many other traits that were very colorful—

Chairman ISSA. He understood where to pick a battle, too.

Ms. JONES. The what? Yes. But he was a colorful character. And when we went into the United—into the Union, we joined America through treaty. And so we, the Republic of Texas, soon to be the State of Texas, got to keep the jurisdiction of our waters out to three leagues offshore.

We're the only State in the United States to maintain that jurisdiction, but for the western boundary of Florida. And so we are unique in that all of the natural resources below the ground out to three leagues, which is about 10 miles, belong to Texans, the people here in this room, and across the State who couldn't be here today, but I know they would like to have if they could. It would have taken them 12 hours to drive from the top—

Chairman ISSA. It is tough that you can get to Chicago faster than you can get to Corpus Christi in some cases.

Ms. JONES. But nevertheless, we all benefit from the natural resources. And we have had—I thought it was interesting when I was testifying after the Macondo BP blowout, a lot of legislation came down before the Congress had its own transformation, if you will, to leadership who understood how important oil and natural gas operations were to this country.

Chairman ISSA. Thank you for sending us the percent against Blake.

Ms. JONES. That's right, exactly. But we were concerned because there was an attempt to take over our jurisdiction out to three leagues and put it under Federal purview.

And I spoke out against it and wrote against it, but it was lurking there that in fact the Federal Government, who—under whose watch the BP blowout occurred, would know better than the Railroad Commission, under whose watch no BP blowout has ever occurred, in our State waters.

And so thank you for, you and your colleagues, for putting the brakes on that, some of that legislation that was designed to take over our jurisdiction offshore.

But since then, I have, in the last year and a half, I made sure that we worked collaboratively with another State agency, Texas Parks and Wildlife, and we have done a very in-depth inspection of every well off the coast of the State of Texas, in our State waters, to make sure that, yes, we were on the right track in our per-

mitting and our regulatory, and there are no liabilities or risks out there to this great bay that you see out the window.

We are on top of oversight of our drilling in our State waters, to the extent that the Federal Government should be and ought to be taking our template, the Texas plan, and applying it to Federal waters, where the royalties are owned by all Americans as well.

So I hope that we can provide a standard that the Federal Government can aspire to be like.

Chairman ISSA. And now for a man who shares your view on that, Ms. Jones.

Mr. FARENTHOLD. Thank you very much. Ms. Jones, I'd like to visit with you a little bit. You're hearing and we are all hearing a lot from the EPA about the alleged dangers of hydraulic fracking. How long has fracking been going on in Texas?

Ms. JONES. We have been fracking 60 years, at least.

Mr. FARENTHOLD. That's 6-0?

Ms. JONES. Yes.

Mr. FARENTHOLD. Sixty years.

Ms. JONES. Sixty. The myth is that this is some new technology. And in fact, it's not new at all. It's improved, and the footprint is smaller. And that's what happens when Americans put their minds to technology and applying it in the workplace. We've built a better mouse trap every day, and it's gotten better.

But in spite of the early days 60 years ago, we have zero, zero instances of groundwater contamination.

Mr. FARENTHOLD. And so what is done to protect the groundwater? I understand that generally the fracking takes place between one and two miles—

Ms. JONES. That's right.

Mr. FARENTHOLD [continuing]. Below any of the groundwater. But obviously, to get down there—

Ms. JONES. That's right.

Mr. FARENTHOLD [continuing]. You may have to pass through groundwater.

Ms. JONES. Sure.

Mr. FARENTHOLD. So what's done to protect the groundwater and the surface water?

Ms. JONES. That's right. And the Railroad Commission has very strict rules and regulations regarding cementing and the engineering of the wellbore in and of itself, and double casing through aquifers, until such time as the aquifer level is, it's identified and casing is—it's double cased and cemented through any kind of potential aquifer to ensure that there is no break out or migration or contamination of aquifers, groundwater aquifers.

So, you know, we set a very high standard. And industry adheres to that standard because nobody deliberately—of course, I am assuming that they are going to make me proud all the time, but nevertheless we have rules in place and enforcement actions that we use to ensure that our rules and regulations are followed.

Mr. FARENTHOLD. Do you think there's a need for national regulation by the EPA, or is this something you think the States can do on their own? And why do you think the EPA is so interested in regulating it?

Ms. JONES. Fortunately, I can't even begin to imagine the mindset of the EPA. I can imagine that the need for more jobs, bureaucratic jobs, maybe something like that is driving their initiative. But I will say, I absolutely am opposed to any kind of national regulatory scheme.

And there is a practical reason for that, along with my philosophical leanings. The practical reason is that the geology underground is not the same in any of the States. In fact, you know, just—a State boundary is above ground, as you know, as you know, but the geology is ever changing underneath the ground.

And we have different tax laws. We have severance taxes other States don't have. We have different sales tax plans. So the economics of each individual well are different in every State as well.

So when you're combining that with the geology, the topography of the roads in the Marcellus shale in Pennsylvania and Ohio, they will have different issues related to the disposal of water, produced water, than we have in Texas.

So they'll have smaller roads and maybe more hills and winding roads that we might not have in Texas. But we'll have different issues.

It's impossible, even if they wanted to have a national plan, it would be practically impossible to try and attempt to have a one-size-fits-all parameter of regulatory oversight for all of these varieties and variations in topography and geology and tax, tax plans in the various States.

So I am opposed, practically speaking, and philosophically as well, that the States need to have their, maintain their sovereignty and maintain their control over their own natural resources.

Mr. FARENTHOLD. Thank you.

In addition to the EPA attempting to regulate fracking, which would have a, I believe, a negative effect on oil and gas production in Texas and the country, is the Federal, are there other Federal agencies that are making it difficult or pose a threat to the oil and gas industry, or the energy production industry in Texas? I know, I hear a lot from my friends in West Texas about Fish and Wildlife—

Ms. JONES. Yes, yes.

Mr. FARENTHOLD [continuing]. Being involved.

Ms. JONES. The Endangered Species Act has morphed into Endangering the Human Species Act. We are seeing now, what you've been hearing are the stories about the listing of the lizards.

Endangered Species Act [ESA], is an example of a process that is lacking sound science and peer review. Possible listing of two lizards in Texas that are going to put road blocks in front of, and drive costs up of the drilling and production of oil and natural gas in the Permian basin, historically the largest oil-producing basin in the United States of America, is faced with, you know, the doomed sagebrush lizard.

And then down here in the Eagle Ford, a potential listing in the future is a spotted tail earless lizard. And that's in the Eagle Ford shale.

Now, interestingly, the ESA itself has maintained that fire ants are one of the causes of the diminishing population of these lizards,

although no studies have really been done to establish what that population is. But if it has been diminished, it could be by fire ants.

And so we have fire ants that attack lizards, potentially diminished population, which gives the ESA, the Endangered Species Act, the justification to put the brakes on oil and gas and ranching operations, which are very important in Texas.

These operations have been going on for decades in the Permian Basin. It's a very mature and experienced oil field, if you will. And trucks and traffic and drilling rigs and ranching have been going on for years. And all of a sudden, this new diminishing of potential population of lizards that have been listed is something that they have a concern about. I—so you're right on in our concerns.

Mr. FARENTHOLD. And let me just get to a couple of other witnesses just for a couple of seconds.

Mr. Weis, you've been, your company is growing, and you've been hiring quite a few employees. Are you having trouble finding skilled employees? Are you having trouble finding them, or are there plenty of people there to take the jobs?

Mr. WEIS. Well, you know, we're a smaller company, and we offer newer rigs. And we're, they—we are the highest paying drilling contractor, or one of the highest paying. But yes, we still struggle with that.

Three years ago, we used to require 2 years' experience. Now we require 1 year experience. And we're beginning to start training programs where we can take somebody that we like and actually bring them within our fold and make an oil field worker out of them.

Mr. FARENTHOLD. So what does an oil field worker typically make? What's the salary?

Mr. WEIS. The lowest guy on the rig makes approximately \$65,000 a year. The driller, which is a, I want to make this known, is a highly skilled position, they can make as much as \$120,000 a year.

And in Texas, we normally work a rotation of 7 on, 7 off. And so you actually live out there 7 days in a row. You work 12 hours a day for 7 days. It's hot down here. It is—it's a tough job. But you can see it's very well compensated.

Mr. FARENTHOLD. All right. And Mr. Souki, you originally, I guess it was about 7 or 8 years ago, y'all were talking about building a plant to import liquefied natural gas. Now you're talking about exporting natural gas. Can you talk a little bit about the economics of that, what gas is worth here in Texas, as opposed to what it's worth in other parts of the world?

Mr. SOUKI. Well, here—

Chairman ISSA. You don't actually have to tell us what you're selling it for. That's okay.

Mr. FARENTHOLD. Just ball park figures, yeah. I mean, obviously it's got to be, for a project the size you're proposing, there's got to be a big price differential.

Mr. SOUKI. You know, the fundamental premise is that the gas that we want is worth nothing in Texas because it's associated gas, and it's going to be flared, unless there's a market found for it.

So today gas prices in the United States are \$2.50. This is a handing out price. It's probably not much different down here. But

as the Eagle Ford continues to develop and as the Permian continues to develop, we're looking at, in the last 12 months, one BCF of gas that didn't exist last year.

And if you start looking at the rigs that have actually built wells and cannot find a market for them, cannot find an infrastructure to move the gas to market and they cannot find a market to which to sell the gas, who is in a situation now that the incremental gas that we're finding is worthless. And it's only being produced because the condensates are very valuable.

And you can move the condensates by truck. You can get a truck to get to the well and pick the condensates and move them to market. And on that basis alone, they will pay Mr. Weis in less than a year. And the rest, they need to find a market for.

In the rest of the world today, in Asia, you're already substituting for oil products. There is a 100 BCF market on a global basis. We're using oil and oil products from our generation for fertilization production and chemical production, where you really should use natural gas, if it was priced on the basis of what does it cost to produce this in Texas and deliver it to that market.

And it's also closer to Puerto Rico, where they're using diesel and fuel to generate their electricity, at the cost of \$17 to \$18, where we could deliver gas to them—and for this we don't need a permit, because it is still in the United States—but we can deliver gas to them at \$8 or \$9 and save Puerto Rico a billion-and-a-half dollars a year, and have some very significant environmental advantages to when you burn natural gas as opposed to burning fuel.

And this applies everywhere, from Puerto Rico all the way to China, with a number of countries in between.

Mr. FARENTHOLD. And do you think that our proximity in south Texas and our, or some of the other shale gas fields are, is going to be an economic boom to them, because these manufacturing facilities or other facilities that use gas will locate there?

Mr. SOUKI. Here in the, here in Texas? Yes, I think it will. But we already have an industry and infrastructure here that has already started. But when you're looking at the timeframe that is needed to build new infrastructure, it takes many years.

So you can have a big announcement of a petrochemical plant that Dow Chemical or Shell announces. That's great. It will take 2 years to permit and 5 or 6 years to build it. So it's a solution for 2018–19, not for tomorrow.

Mr. FARENTHOLD. Thank you.

Mr. SOUKI. The low hanging fruit has already been picked up.

Mr. FARENTHOLD. Thank you.

Chairman ISSA. Recognizing that we could go on with the first panel forever, but there is a second panel. If you don't mind, I'd like to give a little homework out. And we call it, you know, making statements for the record, supplying additional information.

I'd like a couple of items. First of all, for any member of the panel, but particularly for Commissioner, every possible way that you and the Commission look and say groundwater contamination can occur, you know, our committee held here many years ago on the fact that we were having huge groundwater contamination

from single, single sited holding tanks at gas stations, that basically if they leaked, they leaked, and there was no safeguard.

So we all understand that leaks can happen. And you know, if you're not fracking but you still have something coming up through the ground, a leak can happen.

So anything that is in your checklist that you could fairly easily pull off and provide the committee would be helpful, sort of how do you view this.

Because obviously, well, we know that there have been no fracking-related leaks. We all understand that groundwater does get contaminated by a number of ways, including, you know, the person who simply is indiscriminate with their oil when they change their oil.

The geopolitical stuff—and Charif, this is probably more for you, but it's for all of you—our committee is anticipating holding a more in-depth hearing in Washington on the impact of being a net exporter versus a net importer.

This would include many of your customers. We're not asking for you to talk about customers, potential customers, but sort of the impact of Russia, being able to turn on and off the spigot in other countries versus the United States, anything that you would be able to give us on your view of global market suppliers, who they are, versus the United States as one, because that would be feedstock for an additional hearing.

Last but not least, Luis Fortuno, the Governor of Puerto Rico, is a dear friend of mine. We served in Congress together. And when I went down to Puerto Rico, all he talked about was cutting in half the carbon footprint, making it cleaner and saving money at the same time.

So there's nobody that's more interested in going from oil to gas than Governor Fortuno. So although I didn't know all the details of your role in it, from my former colleague in Puerto Rico, he hopes that to be one of his legacies as Governor.

And with that, I'd like to thank you for your testimony. We will keep the record open for other extraneous remarks, but—and you don't have to do the homework, but anything you can give us—

Ms. JONES. Absolutely.

Chairman ISSA [continuing]. Along those lines or other lines would be appreciated for this and future hearings.

And with that, we'll take a short recess.

Ms. JONES. Thank you.

[Recess.]

Chairman ISSA. If everyone will please take their seats, we will now recognize our second panel.

Mr. Scott Stanford is operations manager of Royal Offshore, Royal Production Company, Inc. Mr. Mark Leyland is senior vice president of offshore wind projects for Baryonyx Corp. Mr. Roland Mower is president and chief executive officer of Corpus Christi Regional Development Corp. And Mr. Robert Parker is president of Repcon, Inc.

If you were here, and I think you all were for the first, then you very much know that the committee rules require that you be sworn. Would you please rise and take the oath? And raise your right hands.

[Witnesses sworn.]

Chairman ISSA. Let the record indicate that all answered in the affirmative.

Please take your seats.

Now, I'm going to apologize in advance. We took a lot of time on the first panel, and it was very informative. We're going to be a little bit quicker on the second panel, so please try to summarize so by the time the red light comes on, you've done with your opening statements so we have time for questions.

And with that, we'll set the green panel. We now recognize Mr. Stanford for his opening statement, or for 5 minutes.

STATEMENTS OF SCOTT STANFORD, OPERATIONS MANAGER OF ROYAL OFFSHORE, ROYAL PRODUCTION CO., INC.; MARK LEYLAND, SENIOR VICE PRESIDENT OF OFFSHORE WIND PROJECTS, BARYONYX CORP.; ROLAND C. MOWER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CORPUS CHRISTI REGIONAL ECONOMIC DEVELOPMENT CORP.; AND ROBERT E. PARKER, PRESIDENT, REPCON, INC.

STATEMENT OF SCOTT STANFORD

Mr. STANFORD. Thank you, Mr. Chairman. I'm here today to represent Royal Production Company, more specifically Royal—

Chairman ISSA. Can you pull the mic just a little closer?

Mr. STANFORD. Can you hear me? Yeah, the focus of my discussion today is centered on the Gulf of Mexico and policies that have been put into effect over the last 18 months by virtue of the events that happened in the summer of 2010.

Deepwater Horizon has changed the scope of how we operate. And coming more from a perspective of direct operations, having done that for the last 20 years, and kind of give you a glimpse of what the life is like as an operator in the Gulf of Mexico in today's times.

I'll give you some examples of some of the policies that we deal with every day. But specifically, they're centered around the Bureau of Ocean Energy Management, Regulatory and Enforcement, BOEMRE, nowadays usually referred to as the MMS previously. And the Bureau of Safety and Environmental Enforcement, the BSEE. Those are the two agencies that we deal with specifically.

Chairman ISSA. And they're basically MMS renamed?

Mr. STANFORD. They're basically MMS renamed under the Department of the Interior.

One of the newest changes is a Safety and Environmental Management System. It's called SEMS. It was put in place and mandated by all operators to be put in place by November 15th of last year. It was a monumental effort, for the most part, for a lot of small independents like us.

It's a very complex and taxing program. It takes a large amount of resources and commitment to implement. It's based on a reporting and policing type of system. It's made up of thirteen elements. And each element has hundreds of pages of policies to deal with every day.

Basically, the core of, the attempt is to qualify each and every individual that's on your platform or working for you on a rig and

maintain their certifications, understand their training, and their whereabouts all the time. And that reporting goes on each and every day.

So in order for a company like Royal to maintain a policy and a procedure and a program like that, it takes a lot of input, a lot of involvement from a lot of people.

Over the last 12 months alone, we've probably spent over \$200,000 in 12 months just to try to implement it. We contract two layers of different regulatory consultants to administer it. And the net result is a significant increase to our operating costs. It's—it goes to the bottom line.

Royal, like the majority of others, operates with a long history of safe operating practices long before SEMS was implemented. So, you know, prior to SEMS, there were other policies that were implemented by the Federal Government, including Subpart "O," Oil Spill Response Plan, the annual facility inspections, annual performance measures, topside and underwater inspections, and many, many more that also were a part of the safety and environmental pieces of our day-to-day life in the Gulf of Mexico.

This is new. It takes the place of some of those. It duplicates a lot of those. But it is a big volume of effort of reporting. And with that becomes new inspections, new need for inspectors, which forces the BSEE into hiring. And so with the new hiring comes new fees to our industry, in the form of direct fees to the wells and platforms individually.

New personnel that are being hired by these agencies are pretty limited in training. They have a very short training program. And for the most part, a lot of them have no industry experience at all, which is a cause of a problem for us on a daily basis.

Another example of new policy is the drilling permits. Everybody reads about them. The moratorium that was put in place on the heels of Macondo affected Royal and its partners in a well that we were drilling in deep water. We were 75 percent complete on that well, had already drilled to 15,000 feet, and had already sunk \$45 million into that well when we were told to suspend it.

And so we had to put temporary abandonment cement plugs in the well. We had to re-lease the well. We had to re-permit, put new permits in place. And all of this is at a spread rate of about \$500,000 a day, half a million dollars a day.

So we spent 18 months, with \$45 million in sunk costs that we had no utility for, no well that could produce and have revenues. So in order to get the well resumed and drilling, the new permitting program had to be put in place, and a new rig contract had to be put in place.

A new rig contract came with a \$10 million risk. In order to get one of the few rigs to move back on that location, they had only a small time slot. And that time slot was predicated on risking \$10 million to hit a date. If your permit wasn't in by that date, then you had to be penalized by virtue of \$10 million.

Our permits took in the order of 18 months to receive. We actually got them, got back on the well. But in the midst of doing so, it came with a new price tag. The price tag went from \$45 million to \$70 million.

So, you know, we added \$25 million to the costs of the well by virtue of having to move off of it, move back on it, and reestablish production with, or drilling with a new casing design.

So with that is all part of a new policy that requires Worst Case Discharge calculations, BOP shear ran calculations, updates of your Spill Response Plans. All the rigs have to be identified. They could drill a relief well, and it has to meet PE certifications for every—so at the end of the day, your new permit ends up being about two to three inches thick. It takes a lot of review time, a lot of preparation time, and at great cost to everybody.

So it goes beyond just the drilling of a well. It affects all activity in the Gulf of Mexico, whether it's an oil tubing unit or hydraulic workover unit. Anything that has a BOP with it has to be recertified.

And every time that you have a procedural change in your permits, you have to resubmit, you know, recertify all these elements by a certified engineer. Each one of those resubmittals along the way, even if it's an ordinary change, takes time. And the review process may be 24, 48 hours.

All of our operations in the Gulf of Mexico run 24 hours a day, 7 days a week. They don't shut down for nights or weekends. You know, so we spend somewhere between 100,000 to half a million dollars a day.

And so every time you make an ordinary change in your procedure and you have to get it repermited, it's inefficient and it's costly.

And we just got through last year doing a decommissioning program that ended up costing twice as much money, twice as long, because of that.

We have one well in particular that we had to resubmit five times after it was initially approved. And one of those five times, there was an iteration that happens three times. There's no longer an interface between the district level for permitting to talk about options.

And at the end of the day, it leads to a great inefficiency, because you just have to offer your options, get them rejected, offer them again. And the whole time it has to be recertified. So that inefficiency has percolated its way through everybody's activities.

Another example is "idle iron." It's a new policy. If it meets the definition of no further use or operations, you have to take platforms and wells out of the Gulf of Mexico.

In essence, it sounds like a good thing. But in reality, real estate in the Gulf of Mexico is very important. You know, what might not be used 1 day by one operator is very valuable to another operator that might be right next to it and needs a structure to operate off of.

So in essence, you're taking the chance of taking out new, relatively new facilities that possibly could be used, especially new facilities that meet modern standards. So to me, that's a, that's an issue.

So in summation, you know, I gave a few examples of what daily life's like working with the regulatory arms of the Federal Government, but you know, I'd like to see the government provide companies with a way to compete on an equal basis.

You know, if you're a small operator, it's really hard to take all these extra costs, distribute them over a finite revenue of cash-flow, as opposed to a very large company that can do that a little bit better. So the playing field, to me, has been shifted because of the new policies. They're so excessive that, you know, there needs to be a large staff in order to deal with them.

And so I encourage the BOEMRE to add staff, add good staff, and you know, raise their salaries. Hire highly qualified people that we can deal with, and train them correctly. And I think that would help our industry considerably.

But, you know, instead of taxing us on new fees, I think that ought to come out of the existing royalty structures that are already there.

So, in essence, I think the entire operating group in the Gulf of Mexico was penalized by one event. Everybody was characterized as possibly being negligent, and now the repercussions are very big government putting in a lot of policies and a lot of policing that is a giant burden on our industry.

And I think that it needs to be changed in a way that helps promote our basin for discovery, not one that prevents people from being able to afford to be there.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Stanford follows:]

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Mr. Darrell Issa
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Re: Testimony for Royal Production Company, Inc.

Royal Production Company, Inc. is an operator of oil and gas assets in both state and federal waters of the Gulf of Mexico. These assets include producing wells, platform facilities, pipelines, and leases that are regulated by the newly formed Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) and the Bureau of Safety and Environmental Enforcement (BSEE), formally the Mineral Management Service (MMS); all under the United States Department of the Interior. In addition, Royal has ownership as a non-operator in assets that are operated by other companies that are also regulated by these same government entities.

Since the "Deepwater Horizon" incident, the creation of these new governmental regulatory agencies has generated many new reporting and permitting policies, which in turn has significantly increased the burden on offshore operator. These burdens translate as direct cost to the bottom line. The bottom line drives the definition of commercial reserve development. Since several of these new regulatory policies have been implemented on a broad basis, the proportional cost burden to smaller independents has risen drastically.

One example of these broad new reporting requirements is the Safety and Environmental Management System (SEMS). This new BSEE mandated policy requires all operating companies in the Gulf of Mexico to implement a safety and environmental program that has been constructed entirely by the BSEE. The implementation of the new program was mandated to be completed by each company independently by no later than November 15, 2011.

The program involves a vast assortment of policy writing, data gathering, and certification to implement. Once implemented the subsequent requirements to maintain and report are enormous; especially for a small independent with limited critical staff. The structure of the program is created to be maintained by many individuals each with various jobs and responsibilities defined within the program. The sheer size and complexity of the program could be maintained by a major company with a large EH&S department; however most independent size companies will be forced to retain outside consulting assistance to implement and administer. These outside consulting companies charge hourly rates for assistance and these rates are many multiples of the normal hourly cost of an employee. It is not reasonable to assume that a company the size of Royal can implement and maintain a huge safety and

environmental program within the exact definitions and time constraints under the rules of this new policy; thus they incurred a large additional cost to do so. Royal has incurred over \$200,000 in the last 12 months alone simply attempting to implement the SEMS program to insure compliance with the new BSEE mandates.

Royal believes in a safe work place and has committed to being an environmentally responsible energy company and has a history of doing so long before SEMS was mandated; as is the case with the majority of operators in the Gulf of Mexico. It is my opinion that the federal government unfairly imposed a policy for policing safety and environmental practices of all companies regardless of their current or previous demonstrated safe work practices. The poor decisions made by a few individuals within one major company at one point in time in the history of the Gulf of Mexico resulted in the "knee Jerk" need for the federal government to assert themselves as the only entity capable of ensuring that others work safely and not pollute the environment.

SEMS involves 13 Elements of Standards. Each Element consist of hundreds of pages of polices that require certification and formulation of existing or modified operating procedures, mechanical integrity inspections of each platform component, hazard analysis, management of change procedures for each modified component, emergency response, quality insurance, accident investigation procedures, safe work practices, and many more.

One of the many aspects of the SEMS program contains a reporting obligation that requires each and every person on each platform or rig must be documented and reported each and daily. In addition, the safety and environmental history of each contracted company used must be obtained and recorded. Furthermore, each contractor employee must be named and his entire history of training must be confirmed; in addition copies of each certification of each of these third party contracted personnel must be known at all times and constantly updated. If one required certification has lapsed, the individual must be removed from the platform. As a result, Royal has had to sign an agreement with a third party data research and document confirmation firm which is second party to the contracted safety and environmental consulting company that performs these task every day and maintains these records, along with notifications to Royal on a daily, weekly and monthly basis. All of this is billed hourly and charged to bottom line of operating the well.

For the most part the majority of these newly required policies were already governed and controlled through previously existing MMS regulations like Subpart "O" which includes annual or semi-annual audits; Oil Spill Response Plans (OSRP) which require annual spill drills and constant updates to the response procedures; annual facility inspections by BOEMRE inspectors, annual performance measures reviews of personnel and component safety operation, annual facility topside and underwater inspections, and the list goes on.

This giant increase in governmental policing of the industry has resulted in the need for the BOEMRE and BSEE to add many inspectors and a large amount of staff to perform these audits and inspections. The cost of these added personnel has been laid firmly on the back of the energy operators in the form of increased or new fees for each facility, well, and operated rig in the Gulf of Mexico. Again the burden has been felt at the bottom line.

To add to the mountain of new complexity in operating a well in the Gulf of Mexico, the BOEMRE and BSEE have had substantial attrition since the Deepwater Horizon Incident and with so many new positions being newly created has forced them to hire individuals that have virtually no training with most never having any previous involvement in the oil and gas industry. After a very brief training period

these new inspectors and government staff members are placed in the actual role of enforcing policy through inspections and permit review. The technical capabilities of so many new enforcers over such a short period of time have resulted in the slow down in permit approvals, excessively long inspections, and production curtailments based on minimal sited Incidents of Non-Compliance (INC's).

Many new drilling and well work permitting rules have been created since the Deepwater Horizon Incident. The obvious one that many read about in the local papers involves the Drilling Permit Applications. The cost for drilling for oil on the shelf and especially in the Deep Water areas of the Gulf of Mexico has increased significantly since the Incident. The cost and risk of drilling much deeper on the shelf to find commercial reserves has pushed many majors and independents into these Deep Water areas. Since Macondo was considered a Deepwater Well and this one well had an incident; the rules for drilling all wells, especially oil wells, has changed. The review period for application approval came to a virtual halt in the 12 months that followed Macondo. There were certainly many political reasons why this moratorium was put in place; however one reason is certain: The federal government instructed the MMS to implement new safety and environmental requirements in the application process and those new rules took much too long to create. The most significant new addition to the application process is the requirement to have the financial resources and the contract in place for containment equipment sufficient to capture and control the Worst Case Discharge (WCD) as defined by the BOEMRE. In addition your OSRP must identify the WCD and if the calculation of your next well to be drilled results in it being the WCD, then the entire OSRP must be revised and resubmitted for approval also. Nodal analysis must be used to calculate the WCD and the mathematical results must be included in the application.

The application must reference one of only two accepted containment system available in the Gulf of Mexico that has been approved by the BOEMRE and BSEE. Since these two containment system are also limited by virtue of existing equipment available today, if your WCD scenario, as defined by the BOEMRE, falls outside of either of these system capabilities then the application will not be approved. Oil spill containment equipment has existed and has been maintained for many years in the Gulf of Mexico by several contractor groups. Each of these companies recommends a membership to their associations so that in the event of a spill, the member operator can realize a reduction of cost equal to the accumulated dues to that point in time. The cost of membership is an additional cost of operating.

Another requirement under the new drilling application rules is to identify and list all rigs in the Gulf of Mexico that are capable of drilling a relief well to the depth and the size to intercept the well that you are drilling in the event that well would begin flowing unconstrained. A Rig Fitness checklist must be completed for the exact rig to be used for the project. The Rig Fitness checklist is composed of a workbook containing many separate worksheets for data input and calculations. The Rig Fitness checklist must be first approved prior to submittal of the application to drill or modify. After a lengthy approval process and once approved, only this specific rig can be used for the project. If that specific rig is delayed or substituted then the entire application process must start again.

An example of this complication is a well in deepwater that Royal was participating in as a non-operator. This well was 75% complete in drilling to its target at 21,000' when Macondo occurred. The MMS immediately implemented a moratorium that required all rigs in deepwater to shutdown their drilling process and to suspend operations for an undetermined amount of time. As a result, this well was suspended at 15,000. Temporary Abandonment (TA) cement plugs were to be placed at various depths in the well. The surface of the wellbore, which was in 2500 feet of water, had to be suspended and covered. All drilling equipment and riser had to be removed and the rig demobilized. Since the total daily "Spread Rate" of this rig operations cost approximately \$500,000 per day, the amount of additional cost to TA the well was huge. The new policies required a new permit approval. After almost 18 months and

many months of reapplication to resume drilling of this well, the BOEMRE approved the permit to continue drilling. Leading up to new permit approval; the operator had to make a commitment to the rig contractor required to hold the rig in a schedule since the available rigs remaining to drill this well were limited to only a few. This financial commitment came with a \$10,000,000 penalty to be paid to the contractor in the event the BOEMRE did not approve the permit by the October 1, 2011 which was the time slot available in this specific rig schedule. Knowing that there were no other options to resume drilling without having to risk waiting as much as another year or more for a capable rig; the operator and its partners, inclusive of Royal, took the risk associated with the agreement and waited for BOEMRE approval. The approval finally came before the deadline; however it came with an additional \$25,000,000 price tag to complete. The additional cost was due to having to T&A the well, relocate the rig, remobilize the rig to location, re-establish connection and setup on the wellhead, drill out the TA cement plugs, engineering cost to address all of the new requirements in the application (which ended up 2 inches thick) and redesign of the casing program which added an additional casing string. These added cost increased the drilling cost of this well by 60%. This was on the heels of \$45,000,000 in sunk cost for a well that had no utility and was delayed by 18 months by the federal government thus delaying needed cash flow.

Since the Deepwater Horizon incident involved a Blowout Preventer (BOP) system that failed to sever all joints of tubing that had been forced up through it; the new drilling applications, in addition to all Application for Modifications (APM's), must now include documentation of the specific BOP system and ID number to be used for the project. This specific BOP can not be changed for another without resubmittal of the application and each must be accompanied by a certificate from a third party that this BOP system is capable of shearing through the tubulars being used on the well. The shear pressure calculations must be attached to each application and each application must be reviewed by a certified Professional Engineer with his certification review letter prior to submittal.

The BOP recertification process is applicable to not only jackup and floating rigs but also platform rigs, hydraulic workover rigs and coiled tubing units. So as result, in the middle of a Saturday night in the course of normal operations with a spread rate of \$100,000 per day or more, if your operation encounters a routine downhole obstruction and you need to mobilize a coiled tubing unit to perform a simple washout; the BOEMRE now requires that the existing approved permit to be modified; the modified application to be reviewed and recertified by a Professional Engineer, the BOP's to be used on the coiled tubing unit to be identified along with third party certified with shear ram calculations, and the entire application be re-submitted to the only district engineer on call that weekend. The time required in this process of resubmitting the application has already added 24 hours and \$100,000+ to the cost of the operations, plus the time required to obtain approval can and often does require another 24 to 48 hours adding yet another \$100,000 to \$200,000 to the operation.

Each and every change in the procedure that is a new added step must require a new approval. In our industry, not unlike any construction industry in the United States, very often everything does not go 100% to plan. It is routine to encounter unknown scaling or equipment failures or a wide variety of unplanned obstructions. Each of these types of situations and many more are ordinary and are expected but not planned until they are encountered. In the past, the industry was allowed to deal with these types of changes of scope within a limit that allowed flexibility to create and approve your own self developed plan and proceed knowing that your operation was incurring \$100,000 per day in cost. If the change of course was large enough, the engineer could pick up the phone and briefly discuss the normal exception with an MMS district engineer and obtain verbal approval. That is no longer the case. The federal government has basically taken any control of your plan away from you, the operator, and placed itself in the position of being the only approved path forth. This was done in the face of an

extremely limited staff and one that has limitations on the technical depth of engineering within that limited staff. The final result comes as a tremendous cost to the industry. The issue is exemplified by the fact that the district that make these daily decisions for the BOEMRE have no concern whatsoever for the cost of the operation. The industry as a whole is held hostage to this situation simply because each operator knows that the only way to obtain an approved permit to drill and produce oil and gas in the Gulf of Mexico is dependent on these same government employees they must deal with each day. The level of conversation between an operator and a BOEMRE engineer in the district for permit approval has been shortened if not eliminated depending on district due to their under staffing and such a vast new assortment of details each one of them must rule on each day. As a result, there is little to no opportunity to reason or discuss ordinary issues with the hopes of striking a reasonable course of action.

One example of this type of excessive burden, added cost, and inefficiency to our industry is the decommissioning of a 13 well field operated by Royal during 2011. On one well alone, Royal had to modify and resubmit changes to the approved permit 5 times using the process described above. One of the 5 changes involved repeatedly attempting to provide the approving BOEMRE engineer with optional new plans not knowing which one he would approve. Each revision could only be submitted one attempt at a time. It took three attempts and three recertifications to finally obtain an approval that came with the qualification that if that does not work you can not proceed until you resubmit yet another modified application. There was no opportunity to submit a plan that built in options as subsequent courses of resolution if the first attempt failed. Each next step had to be approved along the way until you were back on the step in the original application that had already been approved. The final cost of plugging this well ended up at \$1,500,000 for a single well when the norm and the budget for this type of well was \$300,000. Of the 13 wells plugged, each and every one of them required a modification to the application even though the engineering and planning of these operations had taken 3 months to derive and 6 months of initial review by the BOEMRE district office prior to approval of all. The entire project took twice as long to complete as planned.

The final issue for this testimony relates to the newly developed "Idle Iron" policy that was implemented in October 2010. In the past, if a lease in the Gulf of Mexico contains a well capable of producing in commercial quantities, the other wells and facilities on that lease were required to be maintained by did not require decommissioning. The new policy requires that an operator of a producing lease must abandon and decommission any well or facility that meets the definition of "No longer useful for operations or is not capable of producing" within 3 years of meeting the definition. The result of this policy has been a huge escalation of the abandonment service business and the increase in cost to the operator due to increased competition to obtain available SEMS acceptable equipment and personnel during favorable weather months in the Gulf of Mexico. In years past, the operator could schedule decommission in an orderly process thereby spreading out the projects over the months between spring and summer when working conditions are best and the cost of delays is minimized. The result is a lower cost to the operator per well decommissioned. Not only does the new policy remove the business aspect of cost control from the hands of the operator, it also forces relatively new structures to be abandoned that could someday have utility for a subsequent operator. Real Estate, existing platforms, are a major component of development of reserves in the Gulf of Mexico. Cost of construction of production platforms range in costs from tens of millions of dollars to as high as over a billion dollars. Drilling from an existing structure that already have processing capability greatly reduces the finding and development cost of reserves and as a result makes more reserves commercial. Many structures that one day have no further use to one operator may become very valuable to another operator that finds a new play on that same lease through new 3-D processing or an operator on an adjacent lease that just drilled a open water discovery and can greatly reduce his cost by laying to the adjacent existing facility

as a Right of Use and Easement (RUE). The issue with platform construction is that it can many times make or break the commercial economics of developing reserves.

In summation, I would like to see an opportunity for US companies to compete on an equal basis for the development of reserves in the Gulf of Mexico through the elimination of excessive burdens through policy that the federal government has imposed that only the major companies may be able to afford. Those that have hundreds of wells and facilities and very large staffs can afford to spread the programs and procedures over a larger cash flow. The smaller operators and independents are needed in the Gulf of Mexico and the United States to focus on exploitation of reserves that have long ago become non-core and insignificant to a major company. These companies are the necessity of our future as an energy producing nation.

The excessive policy and bureaucracy that has been implemented in our industry through big government is not needed. I believe that restriction of conducting business in federal waters can be a result of proven negligence in operations; however I do not believe that every company should be considered negligent and that the only way to allow operations in the Gulf of Mexico is to require that the government make every decision and police every person on every platform everyday for safe work habits. The way people work safely is through cultural acceptance and not by policing.

The policies recently implemented, if not changed, may result in the Gulf of Mexico becoming a basin that no one can afford to operate in economically versus other lower cost basins.

I would revise the "knee Jerk" policies that have been created quickly for effect and replace them with reasonable policies that can be administered through reasonable efforts. For those policies that are reasonably implemented, I would encourage the federal government to raise the salaries of those hired by the BOEMRE and BSEE so those attempting to enforce the rules are highly skilled and competent. There should be adequate staffing levels to address all activity and permitting on a reasonable basis. The cost of this government work force should be paid through the existing royalty structure. The net result would be a government willing to help those that provide energy to the nation in a safe and responsible manner as opposed to a government wanting to eliminate an entire oil and gas basin due to unreasonable policy.

Scott Stanford, Operations Manager

Chairman ISSA. Mr. Leyland.

STATEMENT OF MARK LEYLAND

Mr. LEYLAND. Yes, good morning. First I would like to thank you, Mr. Chairman, for inviting me to testify today. And as you can probably tell, I've come from a long way east of Texas, but it really is an honor to be invited here today.

Chairman ISSA. Texas is a very big State.

Mr. LEYLAND. It is a very big State, but I've come a long way, from a long way east of Texas, although I do have family relations in Texas.

Baryonyx, it's pronounced, which is an old dinosaur by the way, is actually a Texas registered company and was established in 2008, and is actually based in Austin. Most of its senior management come from long backgrounds in the offshore oil and gas industry.

And our CEO, Ian Hatton, and I were involved in the development of the most innovative offshore wind farm in the world, the Ormonde Wind Farm, which we took through permitting, design and engineering, all the way through to financial close.

And interestingly, in the context of the oil and gas discussions that we've had this morning, it was actually originally conceived and planned as a hybrid project, which sought to balance the variability of wind by using offshore gas turbines, which need gas to generate power, and use the spare capacity in the transmission asset to export that power ashore. So it was an interesting development.

Ormonde was also the first offshore wind commercial development using five megawatt turbines, which are about twice as big as anything you see onshore, and it was the first to use classic oil and gas type jacket foundations.

Interestingly enough, it was the first to be delivered on budget and on time.

And whereas I'm sure Ian and I would love to be able to claim credit for that significant achievement, I think we'll be the first to admit that was probably due to the project management team we had alongside us which, not surprisingly, came from, you've got it, the oil and gas industry.

And with that success behind us, we are asked when we go back to the UK, "Why did you go to Texas? Why offshore Texas?" And I guess it's a legitimate question. We've heard an awful lot about gas incentives that's existed in Texas, and people ask us that question.

And it was a positive choice, and it was based on our understanding of what it takes to actually make offshore wind viable. And I guess it can be summed up under a few very brief headings:

First, we have the leasing process. And we've heard today about the submerged lands of Texas extending to three marine leagues, which is kind of a quaint British European type measurement, measuring stick, or 9 nautical miles, 10.4 statute miles, or about 16.3 kilometers. Pick whichever measuring stick you want.

And this enables developers within the State to apply for leases from the General Land Office, the Texas General Land Office. There's no Federal involvement at all here.

And basically the responsibility, as you've heard from the other, the previous panel, rests with the State, and the process is we lease from the General Land Office, which, under the stewardship of Jerry Patterson, has been very supportive throughout the whole process. And we currently hold about 67,000 acres of the submerged lands to develop offshore wind.

Within State waters, the permitting authority is very clearly defined. It doesn't fall under any Federal authority at all. It falls under the jurisdiction—well, it does. The U.S. Army Corps of Engineers are a Federal agency, under the MMS, or whatever it's become or morphed into.

So basically, they run a process which has been proven through the oil and gas industry, and we're able to take advantage of that. It's a very straightforward process, and it's clear.

But basically, why again with offshore wind do we come to offshore Texas? An awful lot has been made about—everybody hears all the time about the offshore wind industry off the east coast and things like that.

If you actually look at a map of offshore wind, there's a very nice resource which exists between Corpus Christi and Brownsville that blows very reliable and very, every day, in a very, you know, a very useful forward. I call it "Windy Crescent."

It's about the only bit of the Gulf that is actually like this, but it does have tremendous potential. The wind resource is excellent. Profile is reliable. And basically, simply, the wind blows when the power is needed. It blows in the afternoon, when the demand on the system exists. Onshore wind isn't quite like that.

But most importantly, the oil and gas legacy of Texas is something where I believe you have major, a major contribution, where major contributions to the success of offshore wind will come from.

Basically, offshore wind is an offshore construction project. An offshore construction rig belongs in the Gulf of Mexico. When I set foot on a barge, a Brown & Root barge in 1974 in the North Sea, and that barge was built in, I think it was Livingston Shipyard in Houston, I think.

And basically, if you look at what Texas has, it has the engineering and design houses, the project management teams, like what I said was the result, basically resulted in the successful delivery of Ormonde. The fabrication yards are out there, the ports and harbors, the marine construction legacy, all those things are there.

And the message to me, from my perspective, is clear. If Texas can demonstrate it can build assets off the coast of Texas in the Gulf of Mexico, then it can also provide those services to any and all the developments off the Atlantic coast.

We're talking about developing a maximum of about 3 gigawatts of power, from our leases, but the Federal Government wants to install 10 gigawatts by 2020, 54 gigawatts by 2030. And the scale of the potential market is absolutely staggering for offshore construction.

The development of offshore wind has very little to do with green energy in Europe. This has everything to do with energy security as we move into the 21st century.

Oil and gas, quite rightly, should remain at the heart of the energy solution, but by offering a basket of generating methodologies, it is absolutely imperative.

In Europe, we did the gas, the “dash for gas” in the 1990’s. We’re now importing gas from Russia, Qatar, places like this. And they do quite rightly, as you said, Mr. Chairman, stick there hand on the spigot and turn it off if you tend to vote the wrong way in the United Nations.

So natural gas and wind are complementary. They are not in opposition. They are absolutely complementary. I come from the oil and gas industry offshore, and I seriously believe that. And they form the cornerstone of what is a very reliable government policy moving forward.

I’m convinced, from my experience with other projects in Europe, that Texas can produce power from offshore energy more cheaply than anybody else in the United States. That’s beyond doubt. The opportunity for Texas to lead the offshore wind industry and the new offshore construction boom is just waiting to be grasped.

Texas is an energy State and an offshore construction State. It is not simply an oil and gas State. The existing infrastructure that has been built up over decades to support the oil and gas industry merely needs realigning to address this new market and the new opportunities.

It remains our view that offshore wind should be viable without subsidies. And in the longer term, all forms of new generation, you know, have always started to require some form of support. In the long term it should exist without subsidies.

There are more platforms being taken out of the Gulf of Mexico than there are going in at the present moment. From our projects alone, we would require 50 or 60 structures to be built every year for 7 to 8 years. And this represents tremendous opportunity for Corpus Christi, for all the construction sites around the Gulf of Mexico.

So anyway, eventually the fabrication yards can be full, the ports can be full, and we can actually bring the turbine manufacturers, the cable manufacturers and all those support industries back into the United States, into Texas.

I believe the opportunity is tremendous, and I think it just needs to be grasped. Thank you very much.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Leyland follows:]

Testimony

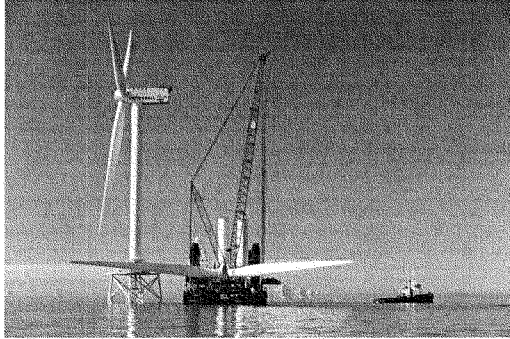
Corpus Christi

February 13th 2012House of Representatives Committee on Oversight and Government Reform**"Exploring all the Energy Options and Solutions; South Texas as a Leader in Creating Jobs and Strengthening the Economy".**

My name is Mark Leyland and I work for Baryonyx Corporation, a company focused on the development of Wind Energy, its use in data centers, and potentially desalination projects, across Texas. My specific responsibility is the development of utility scale Offshore Wind off the Texas coast.

Firstly I would like to thank you for the opportunity to testify today. As you can tell I am from a long way east of Texas but, having studied Economics and Politics in my college days, have always had great respect for the American political system. To be given the opportunity to be part of it is an honor.

Baryonyx is a Texas registered Company established in 2008 and based in Austin. Most of its senior management come from long backgrounds in the offshore Oil and Gas industry – I for example spent over 22 years with Brown and Root construction in the North Sea and Ian Hatton, our CEO, was Director of Exploration at Kerr McGee for many years. More recently Ian and I were involved in the development



of the most innovative offshore wind farm in the world – the Ormonde Wind farm – which we took through Permitting, design and engineering, planning and contracting and on to Financial Close. Interestingly the Ormonde Development was originally conceived and planned as a Hybrid Wind/Gas asset that sought to balance out the variability of wind by using offshore gas turbines to go generate power and use spare capacity in the offshore wind transmission asset to

export the power ashore. Ormonde was the first offshore commercial development of 5MW turbine technology in the UK, the first that used oil and gas type jacket foundations, and the first offshore windfarm to be delivered on budget and on time. Whereas we would love to be able to claim all the credit for this significant achievement, we would be the first to admit that we had a remarkable project management team alongside us and it probably comes as no surprise to you that the team was predominantly from the Oil and Gas industry.

With that success behind us we are often asked 'Why Offshore Texas', when we explain what we are now doing, and it is a legitimate question. For us it was a positive choice, based on our understanding of what is required to be successful in developing offshore wind. It can probably be summed up under the following headings:

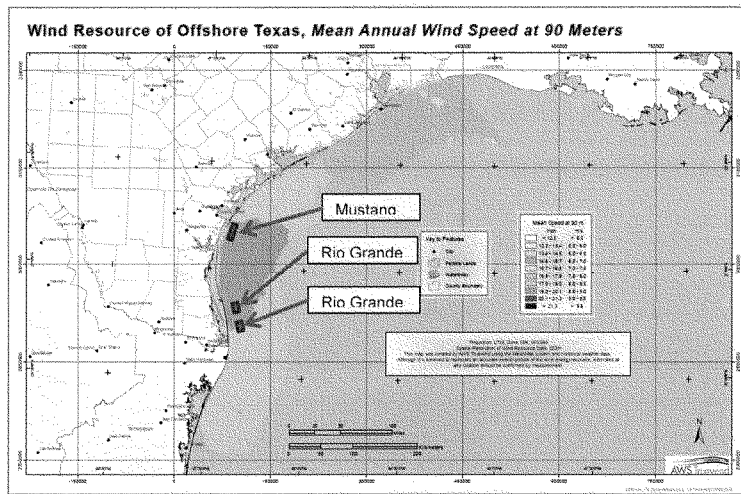
1. Leasing Process

Texas is very fortunate that the State controlled Submerged Lands extend out to 9 nautical miles from the barrier islands. This enables developers within State waters to apply for and negotiate Lease Agreements directly with the Texas General Land Office. There is no Federal involvement at all. As the GLO has had responsibility for O&G leasing in State waters, the process has been straightforward and the GLO, under the stewardship of Jerry Patterson, has been supportive throughout. Baryonyx currently holds leases to over 67,000 acres of the Submerged Lands, with a potential to develop up to 3GW of offshore power or around 4% of the power requirement of Texas.

2. Permitting Process

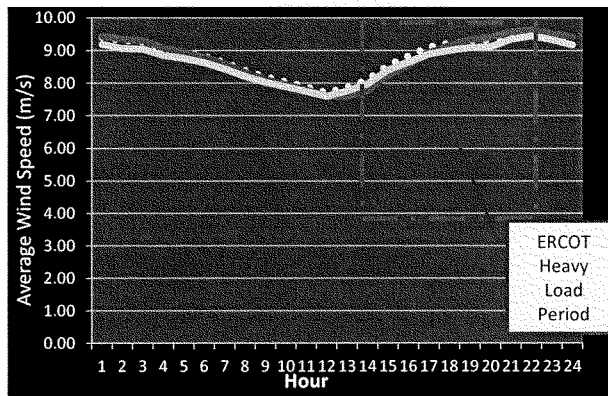
Within State waters the permitting authority is defined. It falls under the jurisdiction of the USACE. Developments off the coast of Texas fall under the Galveston District of the Corps who coordinate all the other Agencies, both Federal and State, whilst the process is regulated under the National Environmental Protection Act. This doesn't mean that there are any shortcuts to permit success but it does place the process under the jurisdiction of experienced personnel following protocols established by exposure to an existing offshore industry.

3. The Offshore Texas Sites and Resource



Much is made of the resource that the Atlantic states cite as a reason to develop wind off the Eastern Seaboard. However there is an area that we call 'Windy Crescent' that has a prime resource off the Texas coast.

Indeed it is the only part of the Gulf coast that appears to have this characteristic. The wind resource is excellent, the profile is reliable and, unlike most onshore wind, it closely matches the demand for power. Put simply the wind blows when the power is needed.



Average Diurnal Wind Speed for Offshore Texas

The profile of the resource is a significant asset but this is uniquely matched by a general weather regime that realistically allows for an offshore installation window of 9 months a year. Our sites lie in water depths similar to the Ormonde Project in a state where offshore development plays a familiar role in everyday life. With these advantages the delivery and sustainability of offshore wind becomes much more credible than other areas of the US where developments are receiving preferential Federal incentives.

4. Oil and Gas Legacy

The clear requirement is for Offshore Wind to lower its cost to a level where it can be considered a viable, affordable form of energy production without subsidies. Building an Offshore wind farm is fundamentally an offshore construction project and the Gulf of Mexico has a long history of success in this industry. If we are to make offshore wind viable, then the legacy of the Gulf has an important role to play. As I said earlier the Ormonde Offshore Wind Farm is seen as the most advanced in the world and the development that is pointing the way forwards for the industry both in Europe and in the US. We make absolutely no apologies for it – the vision, delivery and ultimately the success of that development was based on experience in the Offshore Oil and Gas Construction Industry. I worked for Brown and

Root and the Engineering Manger worked for J Ray McDermott!! We now have the opportunity to build in the Gulf of Mexico – the inherent advantages of building off the Texas coast are clear.

- Engineering and Design houses - from Houston and the Gulf coast
- Project management Teams - experienced in offshore projects, Interface and risk management
- Fabrication Yards to mass produce jacket type foundations – over 50 per annum from BC alone
- Ports and Harbors - open 12 months a year, with large available storage and deep water access
- Marine Services – from survey vessels to supply boats and crew vessels
- Offshore Construction – barges, liftboats, tugs and cable layers.
- Marine Supply and Maintenance – ongoing through project lifetime over 20 or 30 years

Attached is a separate document entitled 'Offshore Wind – an Opportunity for Texas' that identifies the approximate cost breakdown of a complete build out across all Baryonyx Corporations existing lease sites. The message is clear – if Texas can demonstrate that it can build these assets in the Gulf of Mexico then there is it can also provide these services to any and all other development sites up the Atlantic coast. We are talking about developing a maximum of 3GW of Power but the Federal Government aims to install 10GW by 2020 and 54GW by 2030 of Offshore Wind capacity. The scale of the potential market is staggering even if we achieve only half of these ambitious targets.

Summary

The development of Offshore Wind in Europe has little to do with 'green energy' and everything to do with energy security moving into the 21st Century. Oil and Gas should remain at the heart of our energy solution but a basket of differing generation assets is required rather than mere reliance on a single source. Europe had its 'dash for gas' in the 1990's and ended up 15 years later reliant on gas supplies from less than stable countries to feed the longer term need. Shale gas currently appears abundant in the US, but an over-reliance on the use of gas, export of LNG to overseas markets, possible curtailment on fracking operations and even reassessment of reserves could paint a different picture in 5 or 10 years. Natural gas and wind are compatible, complementary generation resources that form the cornerstone of a long term, sustainable, economically sound energy policy.

Whereas the CAPEX cost may appear high generation from offshore wind enables you to predict cost over the lifetime of the asset. So we know what our price is today and with high levels of confidence we know what they will be tomorrow or 20 years from now. Wind is a free and inexhaustible asset.

So what are the opportunities for Texas? I am convinced, from my experience of developing projects in Europe, that Texas can produce power from offshore wind more cost effectively than anyone else in the US. The opportunity for Texas to lead the US in the new offshore construction boom is simply waiting to be grasped. Texas is an energy state and an offshore construction state – it is often discounted as simply an Oil and Gas state. The opportunities are enormous and the potential is there. The existing infrastructure that has been built up over decades to support the offshore Oil and Gas industry merely needs re-aligning to address this new market.

Beyond the construction period Operations and Maintenance continues for the lifetime of the farm, amounting to around \$30m per annum for each 300MW phase of the operational development.

It remains our view that Offshore Wind should be viable without subsidies in the longer term, however all new forms of energy generation have historically needed support to get established and become capable of standing on their own two feet. In these economically challenged times, getting financial support for projects is not easy. There is considerable State and Federal aid going to support the embryonic Offshore Wind industry off the Atlantic Coast – they support the installation of Offshore Wind monitoring stations, conduct Baseline Environmental Studies, conduct Socio Economic studies to fully understand the economic and employment benefits to each State. The DOE issues Funding Opportunities that seem to merely divert valuable resources into academic studies conducted in Colorado rather than seeking to build on the existing experience of offshore construction in the Gulf of Mexico. In my opinion their initiatives, and most certainly their awards, are misplaced.

Currently more platforms are being pulled out of the Gulf than are being built and installed. Baryonyx projects have the potential to require 50 or 60 structures a year, each year, for 7 or 8 years. The steel requirement alone from these would be significant market for suppliers along the coast. Fabrication yards that currently lie idle can be full again, ports busy and warehouses full. The potential to entice new manufacturing industry, when projects are of a scale we are proposing, is huge. Offshore turbine manufacturing, to serve the requirements of the US market, submarine cable to hook up and transmit the power ashore, electrical plant, the list is endless. It is an opportunity to demonstrate how it should be done, effectively and efficiently, using proven technology and a skilled workforce.

I thank you for the opportunity to testify.

Mark Leyland

Snr VP Offshore Wind Projects – Baryonyx Corporation

Att: Offshore Wind – An Opportunity for Texas

Chairman ISSA. Mr. Mower.

STATEMENT OF ROLAND C. MOWER

Mr. MOWER. Mr. Chairman—

Chairman ISSA. If you take a drink of water, we'll immediately call on you.

Mr. MOWER. Mr. Chairman, Congressman Farenthold, good morning. My name is Roland Mower. I'm the CEO of the Corpus Christi Regional Economic Development Corp. Our mission is to strengthen the regional economy. We focus on encouraging corporate capital investment. We focus on job creation.

Our funding comes from a variety of sources, including local governments, like cities and counties, the Port of Corpus Christi, and discretionary funding from the private sector.

We truly appreciate the committee's interest in our region and the topic of the hearing today. Today you've heard or will hear from a wide range of business leaders from our region regarding their issues and concerns related to their specific businesses or industries.

I'd like to speak from the perspective of an organization that visits over 150 existing companies in the region each year and is the primary point of contact for companies interested in doing business in the Coastal Bend.

The major concerns voiced in our discussions across all industries are the increasing costs of Federal regulations on industry, and maybe more importantly the increased, the need for increased predictability in the regulatory process.

Each year I have the opportunity to speak around the region and talk about economic development. I describe how I believe a market economy works, in very simple terms: Investments create jobs, jobs pay wages, wages buy goods and services. In truth, it's far more complicated than that.

Before an investment is made, a rigorous analysis is performed, the business planning process. Potential investments must offer appropriate returns. If they don't, the investment won't occur, the jobs won't be created, and the goods and services won't be purchased.

Again, this is a simple explanation of a complex topic, but it helps illustrate a significant challenge faced by industry—by industry.

Increasing regulatory costs for U.S. industries who compete in a global marketplace are placed at a disadvantage when competing with producers from other countries which do not have the same regulatory burdens or costs.

The second piece of this challenge is injecting some level of regulatory predictability into the equation. Companies need to know if their project complies with current regulations, there's some level of certainty they will be able to move forward in a timely fashion, and the rules of the game will not change.

Please allow me to tie these thoughts together with the topic of the day. Our region, the Coastal Bend, is very blessed. We're tracking significant potential capital investments and job creation opportunities. Our ability to realize the benefits of these potential

projects is limited in some ways by an increasing regulatory burden and the lack of predictability in the regulatory process.

In closing, let me share a couple of data points. In the past year, our Metropolitan Statistical Area, which is Nueces, San Patricio and Aransas County, added over 7,800 jobs. Our 12-county region added over 11,000 jobs.

Most of the job growth in this, in the region this year can be attributed to the activity surrounding the Eagle Ford shale. If we can stabilize the cost of the regulatory burden and increase the regulatory predictability, our job creation numbers will increase significantly. With your help—

[NOTE.—Lights flash due to power surge.]

Chairman ISSA. I told you we had to hurry.

Mr. MOWER. Yes, I need your help.

With your help, our offshore industry can get back to work, and our local refining and chemical companies will continue to invest and hire in our region.

I thank you for the opportunity to share my thoughts, and I'll be happy to answer any questions.

Chairman ISSA. Thank you, Mr. Mower. And I'm convinced the lights are just because we don't have enough wind power.

[The prepared statement of Mr. Mower follows:]



**Committee on Oversight and Government Reform
Corpus Christi, Texas
February 13, 2012
Testimony**

Chairman Issa and Members of the Committee, good morning and welcome to Corpus Christi. My name is Roland Mower. I am the Chief Executive Officer for the Corpus Christi Regional Economic Development Corporation (CCREDC). Our primary mission is to strengthen the regional economy. We focus on encouraging corporate capital investment and job creation. Our funding comes from a variety of sources including contracts for services with various local governmental bodies (cities and counties), the Port of Corpus Christi, and discretionary contributions from the private sector.

We truly appreciate the Committee's interest in our region and the topic of the hearing today, "Exploring all the Energy Options and Solutions: South Texas as a Leader in Creating Jobs and Strengthening the Economy."

Today, you have heard from a wide range of leaders from our region regarding their issues and concerns related to their specific business or industry. I would like to speak from the perspective of an organization that visits over 150 existing companies in the region each year and is the primary point of contact for companies interested in doing business in our region.

The major concerns voiced in our discussions, across all industries, are the increasing cost of federal regulations on industry and, maybe more importantly, the need for increased predictability in the regulatory process.

Each year I have the opportunity to speak around the region and talk about economic development and our regional economy. I describe how, I believe, a market economy works in simple terms: investments create jobs, jobs pay wages, wages buy goods and services. In truth, it is far more complicated.

Before an investment is made, a rigorous analysis is performed. Potential investments must offer appropriate returns. If they don't – investment won't occur, jobs won't be created, and there will be no wages for goods and services. Again, this is a simple explanation of a complex topic. But it helps illustrate a significant challenge faced by industry.



Increasing regulatory costs for US industries, who compete in the global market; place them at a disadvantage when competing with producers from other countries which do not have the same regulatory burdens or costs.

The second piece of this challenge is injecting some level of regulatory predictability into the equation. Companies need to know -- if their project complies with current regulations, there is some level of certainty they will be able to move forward in a timely fashion and the rules of the game will not change.

Now, please allow me to tie these thoughts with the topic of the day. Our region, the Coastal Bend, is very blessed. We are tracking significant potential capital investments and job creation opportunities. Our ability to realize the benefits of these potential projects is limited in some ways by the increasing regulatory burden and lack of predictability in the regulatory process.

In closing, let me share some data points. In the past year, our Metropolitan Statistical Area (MSA) added over 7,800 jobs. Our 12 county region added over 11,000. Most of the job growth in the region, this year, can be attributed to the activity surrounding the Eagle Ford Shale. If we can stabilize the cost (regulatory burden) and increase the regulatory predictability, our job creation numbers will increase significantly. With your help, our off-shore industry can get back to work and our local refining and chemical companies will continue to invest in our region.

I thank you for the opportunity to share my thoughts.

I would be honored to answer any questions you might have.

Chairman ISSA. Mr. Parker.

STATEMENT OF ROBERT E. PARKER

Mr. PARKER. Chairman Issa, Congressman Farenthold, I'm Bob Parker. I'm the president of Repcon, Inc. We're a local industrial contractor headquartered here, and we work in 34 States. We work primarily for the refining, petrochemical and midstream oil and gas sectors of the economy.

We're a little bit different than most of the other people that have talked today, because we're a service provider, as opposed to an actual owner or operator, but our whole livelihood is tied directly to the energy industry.

Clearly, from earlier discussions and from your own research, Texas and south Texas is a leader in oil and gas production and is a critical part of our economy. And I think everyone recognizes that.

There are thousands and thousands of Texas jobs that are provided by the owners and operators and their supporting contractors, suppliers, vendors in south Texas. So the multiplier on what the refining and petrochemical plants and the energy industry in general do in Texas is multiplied by a factor of 20 or 30 in most cases.

The energy industry cares, which is something that you don't hear often out of Washington, and you don't hear often from the environmental side of the house.

The energy industry cares about the environment. We care about safety. I can sit here and testify, without a doubt, that the owners that we work for put safety and environmental protection above everything else in their facilities. It's above production. It's above profits. We have to do it. They know we have to do it. And they expect their contractors and service providers to be the same way.

Over the last 5 years, sulfur levels have been reduced by, by approximately 90 percent. And this brings up something. Just because something is technologically feasible does not mean it's economically viable or it's something we should do.

They have spent tremendous money, to the tune of probably \$40 billion to \$50 billion as an industry, to reduce sulfur, to reduce greenhouse gases. To get that last 10 percent may take an equal amount of money.

So we believe that every single regulation, every single law should have a cost benefit analysis done on it to determine whether it is worth the cost. Again, just because it's feasible or technically able to be done doesn't mean it's something we should be doing.

The energy industry has been under attack. And the policies of this administration, at least from our perspective, are the most onerous on business, on free enterprise, and on the energy industry of any administration in my lifetime.

I have actually been in the refining and petrochemical business since 1971, so about 40 years. We have seen numerous administrations and EPA regulations come and go. But this is the most concentrated attack on the energy business that I can recall in my lifetime.

During the last 20 years, there's been approximately 60 refineries that have shut down. A large number of them shut down be-

cause margins were not sufficient to support the requirements and upgrades that were being required by the regulations.

Unfortunately, when the oil and gas industry are weakened because of shutdowns, it not only impacts their employees, it impacts the entire south Texas area, Texas area, and the United States. It also impacts our national security.

At a time when we have more and more of our oil that comes from countries and states that are not necessarily friendly to the United States, that is a prime reason we should be drilling and producing our own and being less dependent on sources that could be cut off at some future time.

There's also regulation outside of the energy industry that applies to the business. And I realize this particular focus is on the energy industry, but as a contractor, I wanted to speak briefly about some of the overreaching that is going on.

The National Labor Relations Board has basically recently been reconstituted during a 1-day recess appointment. It is the most anti-Merit Shop, anti-free enterprise NLRB that we have had. They have quit being a neutral arbiter and a neutral forum for solving labor disputes, and they come down clearly on the side of the organized labor section.

Whether it's ambush elections, card check, in every case the items that the NLRB is pushing will be detrimental to our business and to most of the non-union business. Texas is a right-to-work State. There were four States that recently passed laws guaranteeing a right to a secret ballot during a union election. The NLRB is challenging them and filed preemptive lawsuits against them.

This is something that is just an indication of the amount of red tape and the amount of regulation that this administration has for business.

In short, I think the regulation is stifling jobs. It's reducing output, dragging the economy, and I believe it's threatening the, not only the economy of the United States, but the security of the United States long term. Thank you.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Parker follows:]

I. Introduction

Chairman Issa, and Members of the Committee, thank you for giving me the opportunity to testify at today's hearing on "Exploring all the Energy Options and Solutions: South Texas as a Leader in Creating Jobs and Strengthening the Economy". I am R. E. Parker, President of Repcon, Inc. Repcon is a heavy industrial contractor primarily serving the Refining, Chemical, and Petrochemical industries along with the mid-stream sector of the Oil and Gas business. We employ over 3,000 people, and one-hundred percent (100%) of our business is related to the Energy Industry in one aspect or another.

Clearly, the Energy Industry is one of the key drivers in the Texas economy and is particularly important in South Texas. The Committee's own research has shown that Texas produces more energy than any state in the Union. We are the leader in Crude Oil production, we supply approximately 30% of the nation's natural gas, and we account for approximately 25% of the Nation's refining capacity.

Thousands of Texas jobs are provided directly by the owners and operators of the refineries and chemical plants and the oil and gas production companies. Literally tens of thousands of additional jobs are provided by the contractors and services providers, such as Repcon, that supports the Texas Energy Industry. Our success and our future depend on a robust and stable Energy Industry, as does the success, security, and future of the entire Country.

II. The Energy Industry Cares and is Responsible

The Energy Industry is made up of hundreds of companies with thousands of employees that care about Safety and the Environment. Regardless of the rhetoric from the liberal press and the so called "environmental groups", I can testify without reservation that every plant owner that we work for places Safety and protection of the Environment above everything else.

Emission reductions by the Refining and Petrochemical Industry over the last 30 years have resulted in substantially cleaner air and water, and the Industry continues to work to reduce their emissions further. In just the last five or six years, sulfur levels in gasoline and diesel have been reduced by 90 percent and benzene in gasoline has been reduced by nearly 45%. Total reductions in overall air pollutants, including ozone have also been reduced substantially in recent years.

The Refining and Petrochemical Industry has made substantial progress on the Environmental front and has spent literally billions of dollars doing so. Unfortunately, the billions of dollars spent simply to comply with government regulations (including overregulation) do not generate one additional barrel of gasoline or diesel to improve to the value of the company.

III. Energy Industry Under Attack

For years, the Energy Industry has been, under constant attack from Washington, and under the Obama Administration, the attacks have increased sharply in both rhetoric and in regulation. Without a doubt, the current Administration is the most anti-Business, anti-Energy Industry, and anti-Free Enterprise of any administration in my lifetime. Unfortunately, the Energy Industry seems to be the primary target for many of the Administration's closest allies and constituents; particularly the segments of the Industry dealing with coal, oil, or natural gas. Over the last twenty years, over 60 refineries in the United States have shut down, and in many cases, the closures were due in large part to the regulatory environment. Just in the last year, an additional five refineries have announced their planned closure. In most of these cases, refining margins have not been strong enough to offset the high operating costs, including the costs of complying with the continuously expanding EPA mandates.

The Administration continues to use the EPA to accomplish its environmental agenda that it cannot get Congress (wisely) to do by legislation. From the EPA rejection of Texas' Flexible Air-Quality Permit program, to requirements under the Renewable Fuel Standard (RFS) involving ethanol and other biofuels, and regulations limiting Green House Gas emissions, over regulation is putting many of our refining and petrochemical facilities in jeopardy.

Unfortunately, weakening the Oil and Gas Industry and shutting down refineries and petrochemical plants not only adversely impacts Repcon, it also damages the economy in Texas and the entire U.S. A weakened Energy Industry also places our national security in jeopardy. Now is the time when we should be weaning ourselves off of foreign oil that, in large part, comes from countries with governments that are increasingly unfriendly to the U.S. We recently had an excellent opportunity to procure crude oil from Canada (a long time friend and dependable ally), but the Obama Administration chose to use red-tape and regulation to kill the Keystone XL Pipeline that would have provided a long-term and secure source of oil.

IV. Over-Regulation Also Occurs Outside the Energy Industry

The Energy Industry is not the only area of the business community that is under attack by the Obama Administration. The Department of Labor, through the National Labor Relations Board (NLRB), has pursued an agenda that is stifling job creation, threatening Merit Shop employers and further threatening the Free Enterprise System. The NLRB clearly has abandoned its role as a neutral enforcer and arbiter of labor law in order to support the Administration's power allies, the labor unions.

The NLRB is setting forth policies that will reduce or eliminate secret ballots in union elections, invite intimidation of employees during an organizing attempt, limit the employer's ability to communicate effectively with its employees, and shortened the time between an employer being notified of a pending union election and the actual time the election will be held. Again, the Administration and its union allies have been unable to get Congress to pass legislation supporting "ambush elections", the use of "card check" as a substitute for fair elections, and have instead usurped the Constitution and Congress, and used federal agencies and the courts to do their bidding. In every case, the proposed policies and rules are meant to favor the unions in their organizing efforts and to hamper the employer's ability to oppose the union campaign.

In the Construction Industry, nearly 87% of the work is done by Merit Shop contractors and workers. Texas is a Right to Work state and that is one of the many reasons our economy is doing well and we are leading the nation in job growth. However, the NLRB has aggressively challenged four states (Utah, South Dakota, Arizona, and South Carolina) that have amended their state constitutions to guarantee the right to a secret ballot in a unionization election. Clearly, the Administration and its NLRB appointees are more intent on tilting the field in favor of unions than in encouraging fair and unbiased elections.

V. **Conclusion**

Overregulation of the Energy Industry, the Construction Industry, and Small Business in general, is stifling job creation, reducing output, dragging the economy down, and threatening entire sectors of the U.S. economy with ruin. Aside from the pure economic damage caused by overregulation we are also risking our national security at a time when the U.S. faces challenges from all over the world.

Thank you for allowing me to address the Committee today. I will be happy to answer any questions or provide any clarifications needed on my testimony.

Chairman ISSA. And this committee has held a number of hearings, both before and after the non-recess recess appointment, so we're very concerned that the actions of the NLRB will not in fact be lawful, that just as happened in previous times, they've had to undo decision after decision. Now, it sounds like in your case undoing those decisions may not be all bad.

But I think—I'm going to be brief, and then I'm going to concentrate on Mr. Stanford. Then Blake, I think, will concentrate more broadly.

It sounds like times are good in the oil patch, but they could be better. Is that a fair statement? That in fact business is up, you're drilling more, but you're drilling with greater costs across the board?

So in a sense, this administration—which includes, quite frankly, credit or blame you give to the House or the Senate—is sort of living off of the fruit of very expensive oil, and in fact—\$100 a barrel—and in fact new developments that are making yields here in the United States go through the roof.

Is that a fair statement from all of your knowledge?

Mr. STANFORD. I think the Gulf of Mexico specifically has a lot of natural gas that still comes out of it, and that natural gas isn't very valuable right now. And the economic burden on top of that, that low cash-flow for natural gas is not always profitable to everybody.

Chairman ISSA. And, Mr. Stanford, I wanted to follow up on your testimony, because I had some specific questions. Have you sought any kind of reimbursement from the BP fund?

Mr. STANFORD. No.

Chairman ISSA. Have you—do you see any reason that you're not as much a victim of that spill, and then if not BP responsible, then the government? Because one or the other apparently broke a promise to you in your deep water drilling, where you had a license, you had a contract, they changed the rules.

And if I understand correctly, and correct me if I'm wrong, they didn't just change the rules, they entered into a, we call it a peremptorium, but a moratorium, when they, so they can go think about rules they were going to write. Is that roughly what you experienced?

Mr. STANFORD. Exactly what we experienced. And I think it is unfair. I think that the Federal Government, without request, ought to review those situations. And there ought to be some compensation for that.

I think it was the intent of Royal and its partners to resume drilling as, as fast as they possibly could. In doing so, they focused on trying to get a new permit, as opposed to reconciling what seemed to be unfair, thus far.

Chairman ISSA. Were any of your rig workers paid at all out of that fund, BP fund? Did any of those individuals apply?

Mr. STANFORD. Not that I'm aware of.

Chairman ISSA. When you have a slow down through, mostly due to the inexperienced of these new Federal employees, where you lose a day, 2, 3, anything your employees can do other than continue drawing salaries, or any way, use them in any other way as a small operator?

Mr. STANFORD. It's purely a cost of lease operation that affects us, and when you have somebody in a group service——

Chairman ISSA. I realize you sub some of that, but those workers, if you were a very large organization, you might be able to tell your contractor to move crews.

Mr. STANFORD. That's true.

Chairman ISSA. My understanding is that might work for BP.

Mr. STANFORD. True.

Chairman ISSA. It can't possibly work for you. You're just not big enough to have the kind of ability to fly crews around.

Mr. STANFORD. That's correct.

Chairman ISSA. So many of the inefficiencies right now coming out of the Federal expansion hit you harder than they're going to hit a conglomerate. Is that true?

Mr. STANFORD. That's true.

Chairman ISSA. Now, I'm going to look at the sunny side for a moment with my remaining time. If you survive, if you're able to continue borrowing and leveraging and doing everything you need to bring in your wealth, your expectation is you'll still, you'll still break even or make money. Right?

Mr. STANFORD. Our hope is, but the plan cost on a lot of offshore projects are planned and scheduled months to years before they're executed. So when new policy comes down, we have to spend twice as much money.

You know, we're already engaged in the economics of that. And for the most part, it makes what would be a two to three return a break-even return.

Chairman ISSA. So I just want to go final on that. You had this \$50 million sunk costs. And I realize you're just talking about some of the costs.

Mr. STANFORD. Sure.

Chairman ISSA. But let's just assume for a moment you have a \$50 million project, becomes a \$100 million project. It was going to make \$90 million to you. So instead of making a huge profit you often hear about, you know, the 40 percent, 80 percent return on investment, you go to a negative return, \$10 million.

And these numbers are unfortunately not the numbers. They're going to be larger than that in profit or loss. Right?

Mr. STANFORD. That's correct.

Chairman ISSA. Now, you drill in deep waters. You bought your lease from the Federal Government. Right?

Mr. STANFORD. That's correct.

Chairman ISSA. And if I'm roughly right, you're paying 17.5 percent of anything that comes out of that, that well. Right?

Mr. STANFORD. That's exactly right.

Chairman ISSA. So on a \$100 million, the Federal Government makes \$17.5 million, whether or not you make a penny.

Mr. STANFORD. Whether we make a penny. That's right.

Chairman ISSA. Plus, of course, your lease purchase.

Mr. STANFORD. That's right.

Chairman ISSA. I just wanted to make sure. That's why I said I was going to concentrate on you, because somehow as a native Clevelander, now living in California, it is sort of poetic justice that the Federal Government has no incentive to make you profitable.

They have no incentive to do anything except collect their 17.5 percent.

Because ultimately, as long as it comes online with you or if you don't make it, the next guy that takes it over, they're basically making the same amount, even if they make your project cost double what it should.

Mr. STANFORD. That's exactly right. They're not sharing any of the risk of the loss. And so long as the well comes onstream, they will make their royalty. And that's—

Chairman ISSA. Now, I've got a potpourri of people here, EDC, independent driller, somebody who—Leyland, you're lovely in the sense that you're out there, even if you're not drilling. Do you believe that this committee should try to find a way to link the ultimate revenues received to the original estimate of burden placed by the government?

In other words, if the Federal Government again changes its bargain between the start of a project and the end of a project, do you think that we should have some sort of a shared cost so that it's not all on you, while the Federal Government makes, in that hypothetical example, \$17.5 million and you lose \$10?

Mr. STANFORD. I would love it. And the reason—

Chairman ISSA. I was actually asking the others, too, because I think that you were a given. But Leyland, you wouldn't be part of that directly; but indirectly, you would. If they make putting green energy up in the Gulf much more difficult, your project might go from a profit to a loss. But in the meantime, you're still renting. Right?

Mr. LEYLAND. I think that's true. You know, we are safer inside State waters. So you know, we—thanks be to Texas, we're kind of immune from that. But I think—

Chairman ISSA. Well, I wasn't going to suggest on behalf of Texas, because the Railroad Commissioner already left. But, you know, if they were the problem, I'd suggest that they share the solution, too.

Mr. LEYLAND. Well, yes, I think that's true. We do get a lot of support from the State, you know, a lot of encouragement.

Chairman ISSA. My time has expired. Just briefly, would you say that that should be a scheme we try to do on behalf of the American people?

Mr. PARKER. We try to get that in with our clients. If they change the rules after a contract is let, we expect to be able to go to them and—

Chairman ISSA. You get paid for change orders?

Mr. PARKER. We believe in change orders.

Chairman ISSA. Geez, I always try to avoid that.

Mr. PARKER. I'm a contractor. I have to believe in change orders.

Chairman ISSA. I know. You lose a little money until the first change order.

Mr. PARKER. Yeah.

Chairman ISSA. Well, thank you.

Mr. FARENTHOLD.

Mr. FARENTHOLD. Thank you, Mr. Chairman.

Mr. Stanford, as a result of what you've gone through and seen, do you think we're creating an environment where only the majors

can play in deep water? Are y'all going to continue in deep water or—

Mr. STANFORD. I think that the playing field is not level anymore. I think the major companies have an advantage just by virtue of the amount of resources they have and the amount of revenue that comes from that. The distribution of those costs are more proportional than they are to us. So yeah, I think there is a shift of advantage there.

Mr. FARENTHOLD. And you're talking about all of the money that it's costing you, and in fact, it's costing the Federal Government some money to implement all of these new rules and regulations.

I'm concerned that we're taking the wrong approach to this. Obviously, we've got to ensure safety, but the Gulf of Mexico isn't just U.S. water. It also includes waters controlled by Cuba and Mexico, in which all of, no matter how many regulations we pile on folks operating in U.S. waters, or on U.S. companies, it's not going to have a lick of effect on the Cubans or the Mexicans.

Do you think it might be a better use of the resources to develop spill responses and technologies and training for people to respond for whenever this, when this happens again, in non-U.S. waters, be it in the Gulf of Mexico, the Arctic, or anywhere else in the world?

Mr. STANFORD. I tell you where it would be a benefit. The Bay of Campeche is not very far from here. And they polluted Texas beaches, you know, in the 1970's that lingered for many, many, many years. So I can only see that would be a benefit.

Mr. FARENTHOLD. And I think you were also talking about pulling, when you're done, having to remove the rigs, and the value of the real estate in the Gulf of Mexico. Do you find—y'all do some shallow water, too, or you just—

Mr. STANFORD. Sure, we do.

Mr. FARENTHOLD. Do you find, especially in the shallow water, that you tend to have fishing boats around your rigs?

Mr. STANFORD. Always.

Mr. FARENTHOLD. And they kind of create artificial reefs and wildlife habitats?

Mr. STANFORD. Right.

Mr. FARENTHOLD. Does it make sense that we're requiring, when we're spending money to sink Navy ships to make artificial reefs, we're requiring oil companies to spend money to remove reefs that they'd rather abandon in place?

Mr. STANFORD. I do. I think that the number of platforms that are turned to reefs is much less than it used to be. It used to be a component you could negotiate, especially off the State of Louisiana. But there's a big benefit to that.

My issue is with the relatively young modern platforms that meet the current qualifications, that have to be taken out because they lapsed a few months of being useful, when it could be useful to somebody else. And it's important in development.

Mr. FARENTHOLD. Mr. Parker, you do turnarounds for refineries. But we're not, you're not building any new refineries, are you?

Mr. PARKER. There has not been a new refinery built since 1978 in the United States. There have been some large expansions. Primarily, over in Garyville, Louisiana, there was a large expansion

by Marathon. And in Beaumont, Port Arthur area, Motiva did a big expansion.

But beyond that, most all of the capital expenditures have been for diesel, hydrogen sulphurization, to meet the low sulfur diesel and gasoline requirements, which contributes not a dime to the bottom line of refining and petrochemical plants. It's strictly a cost of doing business.

Mr. FARENTHOLD. And we're at or near capacity in our refineries now nationwide. Is that an accurate statement?

Mr. PARKER. Yes. I mean, those type projects, the ones that are environmental related, are simply so they can keep operating. They don't do anything for the bottom line.

Mr. FARENTHOLD. Do you think there's a chance we'll ever get some more refineries in the United States? Would this cheap natural gas overcome the regulatory costs of building one here? Or are we just done with—

Mr. PARKER. I think there's a possibility that, assuming the natural gas stabilizes at a low dollar, you could see some possible new ethylene crackers come in more on the petrochemical side of the business than on the refining side.

Mr. FARENTHOLD. And for people with environmental concerns about the refining, would any refinery built in the United States be cleaner than a refinery built anywhere else in the world?

Mr. PARKER. You know, I can't speak for 100 percent of the refineries in some of Europe, the European countries, but I can tell you that compared to a lot of the Third World countries, Vietnam, India, China, our refineries are substantially more modern, in terms of environmental controls.

Mr. FARENTHOLD. And Mr. Mower, could you talk a little bit about what the abundance of relatively low cost natural gas and wind energy, to keep our electricity affordable, how is this making your job easier? What—are you seeing more interest in, you know, what type of industries are we looking at? What kind of jobs and wages are we looking at in those industries?

Mr. MOWER. Power is very important. Land, water, power, people. That's what you do in economic development, you sell land, water, power and people. But we have those assets.

The projects we're trying to do now, we report monthly to a board of directors. The numbers are almost staggering in terms of investment and jobs, of projects that are looking in this region. And it's across the board. I would say generally, it looks like industry we have in the region today, but we're certainly seeing some new industries come into the marketplace.

Natural gas, natural gas is really important. When you look at the competitive environment, when companies are looking to site a facility, they may get better power in another State. We offset that with lower gas prices. They may have better property taxes in another State. We offset that with a 45-foot channel.

So it's having a balance of, the balance of our assets that gets us in the competition. Natural gas kind of sways things to our advantage.

Mr. FARENTHOLD. Do I have time for one more question?

Chairman ISSA. Of course.

Mr. FARENTHOLD. I wanted to ask Mr. Parker, you operate across the country doing these turnarounds. These refineries want to be turned around quickly. How many people does your company employ?

Mr. PARKER. Today we have about 3,000 working in some 30 States. They're all based out of the Gulf Coast, and the majority of those, probably 2,200, 2,300 of them, are Texans.

Mr. FARENTHOLD. Are you having trouble finding good people, or are you getting good people?

Mr. PARKER. We absolutely have trouble finding good people. And this is something, it really probably wasn't the topic of this hearing, but the fact that a lot of people—we have employees that are ex-employees that are drawing unemployment. They won't come back to work for us unless we can guarantee them 3 months' worth of work. So if we have a month job or month-and-a-half job, they'd rather just stay on unemployment. That, that is hurting us.

The other thing is we have a lot of trouble, and I would venture to say the drilling companies do, too, finding employees who can pass the drug test. That is a major problem, not only in Texas, but when we work in California, Washington, everywhere we go. And I—

Mr. FARENTHOLD. Typically, what does somebody who works for you make?

Mr. PARKER. Anywhere, we have boilermakers that make \$70,000, \$80,000 a year, on up to \$140,000, \$150,000.

Mr. FARENTHOLD. All right. Thank you very much.

Mr. PARKER. And we are Merit Shop contractors by the way.

Mr. FARENTHOLD. Thank you.

Chairman ISSA. Well, I appreciate your going into areas besides just directly energy, because one of the reasons that we do field hearings is to get more than just what you hear inside Washington.

I would like to follow up just briefly, very briefly, slightly off track of energy. We are going to be periodically reconsidering the 99-week Federal unemployment. How would that impact an area like this?

You have low unemployment here, by comparison to the national average, different parts of the State. You're in the sixes or sevens, or sometimes even lower.

How do you view the effects of, as employers, particularly the effects of the Federal policy of this 2-year unemployment? How does it affect your ability to get workers? You sort of started on that, Mr. Parker.

Mr. PARKER. I truly believe—this is a personal belief—that if you don't give people an incentive for going back to work, they're not. Regardless of all of the discussions out of Washington, that all these people really want a job, if you can make \$30,000 a year sitting at home watching television, or you can go out and work, a lot of people choose the other.

I think the thing that we could do to really improve the employment situation is to reduce the amount of unemployment.

Chairman ISSA. Now, you mentioned the 1-month versus 3. How do you account for that, you know, people won't come back unless you guarantee them 3 months?

Mr. PARKER. They, they just feel that unless we can guarantee them, you know, like a permanent job—in our work, we're a contractor. When we have a lot of work, we hire a lot of people. When we don't, we lay off. So our work is cyclical.

But these guys have been doing this work for 25 years. But the fact that now they can be, for 99 weeks, they can actually sit at home—that doesn't mean they're not working. It just means they're working maybe not, not on the record.

Chairman ISSA. That's what I was getting to. Isn't there sort of a secondary market that builds up when hard-working people, over a period of time, are taking, as you say, \$34,000, plus, do either abating costs by working around the home and projects, or are actually earning in some other way?

Mr. PARKER. Absolutely. That's what I was alluding to.

Chairman ISSA. Well, I appreciate all of your comments. What I said to the first panel, I'll say to you. We would appreciate your additional thoughts that come out of this. We are going to hold a number of other energy-related hearings.

And the one that we know will be in the series, but in Washington, will be a geopolitical one, one about the impact of being able to be a supplier of energy, rather than a net consumer.

And so any thoughts that any of you have on it, as American citizens, or as people knowledgeable of just how much power potentially is coming online that can be entered, I should say that can be made part of the world market, we'd appreciate your thoughts.

In addition to that, the record will stay open long enough to get any other comments, and quite frankly, for everyone to get back and let the Members know what they missed by not being here.

Well, you can applaud in a second for all of our panelists, but I do want to thank the audience. You've been applauding when you thought it was right, very nicely, and it's been a very congenial hearing.

And particularly, I want to thank the people who brought young children, or not-so-young children, to learn from today's civics lesson, if you will.

And with that, you may applaud. We stand adjourned.

[Whereupon, the committee was adjourned.]

[Additional information submitted for the hearing record follows:]



RAILROAD COMMISSION OF TEXAS

February 7, 2012

Administrator Lisa Jackson
Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460

Submitted via e-mail to ORD.Docket@epa.gov

Re: EPA Draft Report on Ground Water Contamination near Pavillion, Wyoming
Docket ID No. EPA-HQ-ORD-2011-0895

Dear Administrator Jackson:

We are writing in response to the U.S. Environmental Protection Agency's (EPA's) referenced *Draft Report on Ground Water Contamination near Pavillion, Wyoming*, released on December 8, 2011 (Draft Report).

In the Draft Report, EPA asserted it had found a "likely association" between the ground water quality issues in the Pavillion, Wyoming area with the practice of hydraulic fracturing. However, it appears EPA came to this conclusion based on limited and questionable data; dismissed reports, including a report from the United States Geological Survey of historical problems with ground water quality in the Pavillion area prior to any hydraulic fracturing activity in the area; and an examination of hydraulic fracturing as the only potential source of the poor quality deeper ground water in the Pavillion area. The EPA may have avoided such flaws had it subjected the Draft Report to external, independent, scientific peer review, including a review by the State of Wyoming's own environmental and oil and gas experts.

We strongly urge EPA to classify the Draft Report as a "highly influential scientific assessment," as requested by Senators James Inhofe of Oklahoma, Lisa Murkowski of Alaska, Mike Crapo of Idaho, Jeff Sessions of Alabama, John Boozman of Arkansas, John Cornyn of Texas, Tom Coburn of Oklahoma, Marco Rubio of Florida, Pat Roberts of Kansas, and Roger Wicker of Mississippi in a letter dated January 20, 2012. The Office of Management and Budget at the White House (OMB) issued clear guidelines in the "Final Information Quality Bulletin for Peer Review" regarding this type of report, stating that a scientific assessment should be considered "highly influential" if, among other things, it is determined that the dissemination is novel, controversial or precedent-setting. We believe this report is definitely both novel and controversial since it is the first time a governmental body has put forth an assessment that attempts to link groundwater contamination to hydraulic fracturing. Once this classification is

applied, the Draft Report will be subject to stringent peer review requirements, which we believe is of paramount importance.

In addition, the numerous, and somewhat overlapping, studies initiated by various federal entities, including the Department of Energy, the Department of the Interior, the Center for Disease Control and Prevention, the Agency for Toxic Substances and Disease Registry, and the Securities and Exchange Commission, not to mention EPA's own national study of hydraulic fracturing, have elevated the issue of hydraulic fracturing to such a fever pitch that it further warrants the Draft Report be classified as a "highly influential scientific assessment," ensuring OMB's memoranda on information quality and peer review is closely followed.

We understand the Draft Report is preliminary, but EPA's language in the Draft Report, on its webpage, and in responses to media questions, strongly insinuates that hydraulic fracturing is the only possible reason for the poor quality of water in the Pavillion area. Unfortunately, this seems to be a repeat of the template EPA followed in the Range Resources case: first, make a "preliminary," unproven assertion that will be perceived by the media and the public as a condemnation of hydraulic fracturing, then quietly back away once the science has proved the assertions to be false.

Our strong regulatory regime in Texas has helped us avoid a single proven case of groundwater contamination occurring as a result of hydraulic fracturing. We continue to conduct extensive oversight and monitoring of all drilling practices in our state. If we find clear scientific evidence of safety or environmental issues, we will modify our regulatory programs to ensure any new issues are addressed. However, such adjustments are not warranted unless based on science and fact.

We appreciate the extension until March 12, 2012 to comment on the Draft Report and look forward to reviewing all of the background information not included in the Draft Report.

Sincerely,



Elizabeth Ames Jones, Chairman
Railroad Commission of Texas



David Porter, Commissioner
Railroad Commission of Texas



Gary T. Smitherman, Commissioner
Railroad Commission of Texas

EPA Actions Range Resources Investigation

August 6, 2010 Water well owner (Mr. Lipsky) filed a complaint of natural gas in a domestic water well. In response to the complaint, RRC district staff initiated an investigation that included testing the domestic water well for presence of oil field contamination and inspecting the nearby Range Resources gas production wells (Butler and Teal).

August 17, 2010 EPA water enforcement branch first contacted the RRC Abilene district office, which agreed to carbon copy EPA on all complaint correspondence.

August 26, 2010 Mr. Lipsky advised RRC Abilene District Office he intended to disconnect his water well from the house.

October, 2010 EPA technical staff contacted Abilene District Office staff requesting to discuss plans to collect gas samples from the Lipsky water well and the Range Butler Unit gas well. EPA staff informed District Office staff that the EPA was considering issuing an endangerment order; however, EPA did not issue formal communication on this point to the Abilene office or RRC staff in Austin.

October 21, 2010 In a phone conversation, EPA technical staff informed RRC staff that EPA planned to collect a gas sample from the Lipsky well and a gas sample from the production casing of the Range production well. RRC staff recommended that EPA also sample the bradenhead gas of the Range production well, but EPA staff declined the recommendation.

October 26, 2010 EPA staff collected several samples from the Range production site including gas samples and produced water samples. RRC staff witnessed. Range also collected samples of gas, including bradenhead gas. During discussion among the parties present about previous environmental investigations, RRC was informed that air monitors had been placed at various locations in the Lipsky home. However, no specific date of placement was noted.

November 23, 2010 EPA staff emailed analytical results to RRC staff and invited RRC staff to a meeting with Range scheduled for December 2, 2010.

December 1, 2010 EPA technical staff contacted RRC technical staff to advise that the meeting with Range will not occur because Range has declined the invitation. EPA staff also notified RRC staff that EPA planned to issue an endangerment order (SDWA Section 1431) based on recent isotope data that it believed connects Range's operations to gas in the Lipsky well.

December 2, 2010 EPA staff calls the RRC to share same information. RRC technical staff and EPA technical staff also discuss the endangerment order on separate phone call. EPA staff read a statement from the draft order indicating that "RRC has not taken action to date." RRC staff disagreed with that statement and suggested the following alternate

statement “*although RRC is investigating the complaint*, the RRC has not taken *enforcement* action to date.” EPA staff also said that it would issue a press release, not to occur before the following Monday.

December 3, 2010 EPA regional administrator contacted RRC chairman to advise of the planned endangerment order. EPA called RRC staff to ask about other occurrences of gas in shallow sands. RRC returned call and advised of two other complaints in area. EPA requested copies of the files. Range sends a letter to RRC agreeing to take additional actions. RRC staff began gathering information on other water well complaints, per EPA request. RRC staff notifies EPA staff of the Dec. 3 letter from Range and emails PDF of the letter.

December 6, 2010 EPA sent the following email to RRC staff: “As you are aware, the EPA is concerned about the safety of the private drinking water wells in Parker and Hood County that are near the Butler and Teal gas production wells. The EPA wants to make sure that all of the drinking water wells in this area are safe and not subject to methane contamination. Does the Railroad Commission of Texas have plans to sample these wells in the near future?”

December 7, 2010 RRC staff replied to EPA’s December 6 email. RRC staff advised EPA that the RRC has an ongoing investigation and is gathering information about occurrences of gas in other water wells in the area. RRC sends PDF’s of two other water well complaints in the area.

December 7, 2010 EPA issues the endangerment order against Range.

EPA Over-Reach

On December 7, 2010, EPA asserted its authority under Section 1431 (a) of the Safe Drinking Water Act (“SDWA”), 42 U.S.C. § 300i(a) and issued an emergency endangerment order against Range Resource, related to the occurrence of natural gas in a domestic water well in Parker County. EPA staff first advised RRC staff in Austin of their plans to issue the order on December 1, 2010. Between December 1, 2010 and December 7, 2010, RRC staff advised EPA that a specific source of contamination was unknown and still under investigation, other complaints of water wells with natural gas in the area have been filed with the Commission, and that the Commission had secured voluntary cooperation from the operator, including measures to assure safety in the affected household.

Before EPA can issue an emergency order under Section 1431 (a) of the Safe Drinking Water Act, an authorized administrator must determine:

- a contaminant is present in or likely to enter an Underground Source of Drinking Water (USDW) or a public water supply (PWS);

Everyone agrees natural gas was present in the Lipsky and Hayley water wells; disagree on the source of the gas. Evidence exists to suggest that the gas was present in area water well aquifer prior to Range's activities.

- the contaminant may present an imminent and substantial danger to human health;

It is fair to question whether there ever was an imminent and substantial danger to human health because Mr. Lipsky had disconnected his water well from the residence and air monitoring of the residence never indicated a threat of explosion. Mr. Haley never filed a complaint with the RRC. Reportedly he was aware of natural gas and was managing it with an open holding tank that vented any gas before the water was used.

- the appropriate state and local authorities have not acted appropriately to protect public health.

State and local authorities had been investigating the matter since August, had not determined there was a connection between the Range activities and the gas in the water wells, and had secured commitments from Range to expand the investigation. RRC advised EPA of the commitment before EPA issued the emergency order.

EPA prematurely and incorrectly determined that Range's production activities caused gas to migrate to the affected water well, and over-reached in its determination that the state and local authorities did not act appropriately.

EPA Study Sample Summary
Texas

Background

In September 2011, EPA identified ten locations (nine residential water wells, one lease well) in Wise County to be included in their hydraulic fracturing study. One residential location also included ponds.

In September 2011, RRC collected water samples from seven residential water wells, one lease water well and three ponds. (Sampling was not conducted at two properties where RRC did not have landowner approval for access.) Sampling was conducted in tandem with EPA. EPA determined the sampling locations as well as the sampling program.

Preliminary Results

In November 2011, RRC received *preliminary* results and notified water well owners of results where necessary.

In November and December 2011, RRC shared preliminary results with EPA. EPA reported to us that they detected elevated chlorides in the water well samples taken at two properties. RRC did not sample one of the properties, but our sample from the other revealed elevated chloride also. EPA staff stated their intention to investigate this further (to identify sources), and they also told us that the property owner (where we did not have previous access) said that he would allow RRC access to his property.

Final Results

In January 2011, RRC received a draft report for the first water sample RRC collected in conjunction with EPA. RRC staff is in the process of reviewing the draft report. Following review, a final report will be generated and shared with the resident. Reports for the other seven sampling events are forthcoming.

Additional Activities

During the week of January 22, 2012, RRC staff will investigate water wells and identify possible oilfield sources at the property where chloride was detected next week. After RRC's inspection, water well sampling will be performed by a RRC-contracted engineering firm.

Future Plans

February 2, 2012, Conference call with EPA staff. EPA notifies RRC that they will return to the area to sample wells again, with exception of the Ruggiero property. They will add water wells in the vicinity of the property where chloride was detected in water. RRC staff plans to sample wells in tandem with EPA. Sampling will occur in first week of March 2012

ELIZABETH AMES JONES, CHAIRMAN
DAVID PORTER, COMMISSIONER



RAMON FERNANDEZ JR., P.E.
DEPUTY DIRECTOR, OIL AND GAS DIVISION
D. W. -JOB- CRESS
DISTRICT DIRECTOR

RAILROAD COMMISSION OF TEXAS

OIL AND GAS DIVISION

June 23, 2011

Unidentified

STATUS REPORT

Lipsky, Steve Complaint No. 7B-9601
Lipsky Property
Domestic Water Well
Parker County, Texas
Job No. 10-8443

Steve Lipsky's concern was natural gas in a water well. On June 16, 2011, a file review of the subject property was conducted by the District Office. During the file review, the following were observed:

A Commission called hearing to consider whether operation of the Range Production Company Butler Unit No. 1H and the Teal Unit Well No. 1H in Hood County are causing or contributing to contamination of the water well (Docket No. 7B-0288629) was held on January 19-20, 2011.

Based on evidence presented during the hearing, the commissioners found during their bi-weekly conference on March 22, 2011, that the wells have not contributed and are not contributing to contamination of any domestic water wells. The finding and associated order became final and effective 20 days from the date that the parties were notified of the finding.

**RECEIVED RRC
SITE REMEDIATION**

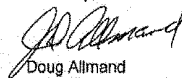
JUN 27 2011

**OIL & GAS DIVISION
AUSTIN, TEXAS**

Page 2
Lipsky, Steve Complaint 7B-9601
Unidentified Operator
Lipsky Property
Parker County, Texas
June 23, 2011

No additional reports will be issued. Please direct any questions regarding this complaint to the Railroad Commission of Texas - Site Remediation Section at (512) 483-6765.

Sincerely,



Doug Allmand
Engineering Specialist

DA/mm

- Assistant District Director
 District Director

cc: Field Operations, RRC, Austin
Site Remediation, RRC, Austin

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