

BACKGROUND MEMORANDUM

TO: Members, Subcommittee on
Energy and Mineral Resources

FROM: Bill Condit, Staff Director
John Rishel, Legislative Staff

DATE: March 13, 2001

SUBJECT: Subcommittee Oversight Hearing on "Domestic Natural Gas Supply and Demand:
The Contribution of Public Lands and the Outer Continental Shelf"

The Subcommittee on Energy and Mineral Resources is scheduled to meet on **Thursday, March 15, 2001 at 2:00 P.M. in Room 1334, Longworth House Office Building** to hold a hearing on "Domestic Natural Gas Supply and Demand: The Contribution of Public Lands and the Outer Continental Shelf."

BACKGROUND

Current Usage

In 1998, Americans consumed about 22 trillion cubic feet of natural gas, accounting for more than 23 percent of the energy Americans used. Natural gas will continue to be a major energy source for the foreseeable future. The U.S. Energy Information Agency (EIA) forecasts that by 2020 domestic natural gas demand will increase 62 percent, even after factoring in healthy increases in renewable energy supplies (26%) and energy efficiency (29%).

The United States is experiencing critical shortages of natural gas and record high prices. Presently, increases in gas demand are outpacing production, which has fallen 14 percent since 1973. Near term demand will continue to rise, driven by the increased use of gas to generate electricity. Gas currently accounts for 15 percent of electricity generation. Of the 250,000 megawatts of proposed electric generation capacity additions in the United States, over 95 percent is gas-fired. The United States is staking its ability to meet increased demand for electricity on having adequate supplies of natural gas.

NPC Study of Supply & Demand

Does the United States have adequate resources of natural gas to meet projected demand? Former Energy Secretary Federico Peña asked the National Petroleum Council, an advisory body to DoE to report to him on this concern. In December of 1999, NPC published a report entitled *Natural Gas: Meeting the Challenges of the Nation's Growing Natural Gas Demand*. This study examined demand-side projections and supply-side forecasts to conclude that coordinated action by the federal government would be necessary to stave off impending imbalance between producers abilities to meet consumers expectations.

Perhaps the key recommendation of this panel was for the President to establish an Interagency Working Group within the White House to bring industry representatives and various executive branch agencies together to discuss the place for natural gas in an energy strategy for the nation. The panel believed that ill-coordinated actions between cabinet departments were inhibiting supply, particularly from federal mineral estate in the West and on the Outer Continental Shelves. A primary finding of the supply-side team is that while sufficient resources exist to meet growing demand well into the twenty-first century, that access restrictions are denying significant volumes of gas today and will continue to do unless administrative and/or legislative actions to curtail restricted access occurs. President Bush tasked Vice President Cheney to lead an Energy Policy Development Group at the White House level to report on the current state of the nation's energy situation and to make recommendations for a national energy strategy. The Vice President's report is expected in early April 2001.

Supply Restraints from Public Lands and the OCS

According to many geologists and petroleum engineers, U.S. production of gas in the future will at least equal the amount that has been produced so far. Recoverable resources (including proven reserves) are an estimated 1,295 trillion cubic feet of natural gas -- about half in known fields and half from new discoveries. This is enough to sustain a sizeable domestic gas industry for more than 70 years.

Significant amounts of the estimated natural gas resource base is on federal land or the submerged lands of federal waters. A primary reason for natural gas shortages is that more and more potentially resource rich land and submerged lands in the United States, are closed to both assessment and/or development. Land withdrawals, development moratoria, and regulatory restrictions on land use prohibit development of significant oil and gas resources in areas like the eastern front of the Rocky Mountains, the eastern Gulf of Mexico and almost all of the Atlantic and Pacific submerged lands.

Some 137 trillion cubic feet of the natural gas resources in the eastern Rocky Mountain Front are under access restrictions. The eastern Rockies are a frontier gas province with about 85 percent of its known gas reserves still in the ground. However, new land withdrawals for national

monuments and national forest “roadless areas” continue to impact the natural gas resources available for development in the eastern Rocky Mountains.

Nearly all of the eastern Gulf of Mexico is withdrawn from oil and gas leasing through June 30, 2012. The Minerals Management Service (MMS) estimates that this region contains as much as 20 trillion cubic feet of natural gas. An area not covered by the moratorium may be offered for sale by the MMS in December, 2001. This area, known as Sale 181, consists of 1,033 lease tracts constituting 5.9 million acres. It is adjacent to the prolific Mississippi Canyon and MMS estimates that the area contains 370 million barrels of oil and 3.2 trillion cubic feet of natural gas. Even though none of the area offered in this sale is within 100 miles of the Florida coastline, the State of Florida opposes this sale. Louisiana and Alabama support the sale.

Essentially all of the Atlantic and Pacific Outer Continental Shelf are also withdrawn from oil and gas leasing through June 30, 2012. These are essentially frontier provinces with very little data available to estimate the resources of natural gas.

Our public lands and outer continental shelves represent the best “hunting ground” for new discoveries of federally owned mineral resources. However, they are all too often posted “No Hunting.” Even when public lands are open, the land-use plans governing BLM and Forest Service administered areas are often deemed inadequate because the agency failed to forecast oil and gas development. As a result, inordinate delays in obtaining permits for drilling and mining occur because plans must be redone to analyze the cumulative impacts of oil and gas development. Meanwhile the nation goes without new sources of natural gas and citizens everywhere pay the price.

EXPECTED WITNESSES

Seven witnesses are scheduled to testify, including the President of an investment bank specializing in energy, three executives from oil and gas companies, the President of the American Association of Petroleum Geologists, an organization of oil and gas geoscientists and two representatives from environmental groups.

For further information, please contact Bill Condit at x59297 or John Rishel at x60242.

Attachments: Witness List
Summary of Dec.1999 NPC Report on Natural Gas (in Adobe Acrobat format)