

American Oil and Natural Gas – A Resource Today and Tomorrow

Offshore drilling is a threat to coastlines and coastal economies

Reality:

- In 2002, the National Research Council of the National Academy of Sciences completed a report entitled “Oil in the Sea III” in which it found that from 1985-2001 offshore oil and gas development, including pipelines, accounted for only 2 percent of the volume of oil spilled in North American waters. Natural seepage was the single largest source of oil in the water accounting for 63 percent of the total.
- As of January 25, 2007, MMS identified 125 spills of petroleum products from platforms, rigs, and pipelines on the Federal Outer Continental Shelf (OCS) as a result of damages from Hurricanes Katrina and Rita in 2005.
 - MMS goes on to unequivocally state, “Those spills did not occur due to loss of control of the producing wells.” Suggesting that spills in the Gulf Coast region following these devastating hurricanes came from producing offshore rigs is wholly inaccurate.
 - According to MMS, there were no accounts of spills from facilities on the OCS that reached the shoreline, or oiled birds or mammals, or involved any large volumes of oil to be collected or cleaned up.
- Over the past 20 years, less than .001 percent of the oil produced in U.S. state and federal waters have been spilled.
- The U.S. is the only nation that prohibits its offshore resource development.

Access to new areas of development – offshore or Alaska – will do nothing to reduce the price of gasoline.

Reality:

- Development of the offshore, ANWR and NPR-A should not be viewed as short term solutions. However, a forward looking energy policy should recognize the energy issues America faces today took their current form over the course of decades. Action must be taken to address the supply issues facing the global crude oil and natural gas markets.
- Some 85 percent of the Outer Continental Shelf off the lower 48 states is off-limits to development. These inaccessible lands contain an estimated 18 billion barrels of oil and 76.5 trillion cubic feet of natural gas, according to the U.S. Minerals Management Service based on estimates from the mid-1970’s.
 - In 1974, the natural gas resource estimate in the Gulf of Mexico stood at 50 trillion cubic feet (TCF). Today the estimate sits at 232 TCF, on top of the 160 TCF that has already been produced; three times what was thought to exist in the 1974 estimate.
 - More exploration leads to a better understanding of reserves and more accurate estimates.
- A May 2008 report by the Energy Information Administration stated, “Crude oil imports are projected to decline by about one barrel for every barrel of ANWR oil production. Opening ANWR results in the lowest oil import dependency levels during the 2022 through 2026 time

frame.” If ANWR had been opened in 1995, its production would be reducing US energy balance of payments today.

Over 68 million acres of federal leases are not producing. Why do we need to lease still more?

Reality:

- Leases give the right to hunt for oil and natural gas – not a guarantee. Natural gas and/or oil resources do not exist under every lease. Natural gas and oil resources occur on only a small number of leases and are economic to produce on an even smaller number.
- Companies invest millions of dollars to acquire and maintain their lease inventories. Acquiring a lease costs a company the initial bonus payment and annual rental payments during the pre-production period. Leases that are not drilled within a specified number of years must be relinquished to the government.
- Once a lease is acquired, a company must conduct exploratory development and navigate the complicated federal permitting process – an effort that can take as much as a decade. Even longer delays occur when anti-development opponents abuse the federal decision making process.
- For more information on federal leases please visit:
<http://www.ipaa.org/news/docs/LeasingIssues07-11-2008.pdf>

Market speculation is adding to the price of gasoline at the pump and must therefore be regulated to bring consumer prices down.

Reality:

- Hedging is a tool utilized by independent producers to manage capital. Most independent producers do not have the size or knowledge to conduct today’s complicated hedging operations. They must use intermediaries.
- Legislation that makes no allowance for the use of intermediaries by independent producers would damage independent producers’ ability to effectively manage capital.
- Opinions differ on the impacts of commodity market investment on the price of energy. For example, in its July 2008 Medium Term Oil Market Report, the International Energy Agency stated, “There is little evidence that large investment flows into the futures market are causing an imbalance between supply and demand, and are therefore contributing to high oil prices.” Addressing market functions while failing to address the need for additional supply does not address the long term energy costs facing the American consumer.

A drawdown of the Strategic Petroleum Reserve (SPR) will cause a drop in gasoline prices.

Reality:

- The SPR was created to respond to a serious supply disruption. A release of crude from the SPR may temporarily stabilize prices and may even bring them down.
- A SPR release is a short term solution and if steps are not taken to address the market fundamentals that caused supply issue, the price situation will not be resolved once the SPR crude release works its way through the market.
- A SPR release may mitigate short term market issues but it is no substitute for sound and substantive energy policy.

Staff Contacts:

Lee Fuller- lfuller@ipaa.org

Dan Naatz- dnaatz@ipaa.org

Joel Noyes- jnoyes@ipaa.org

Ryan Ullman- rullman@ipaa.org