Testimony of Logan Magruder

on behalf of the

Independent Petroleum Association of Mountain States (IPAMS)

before the

Joint Economic Committee

October 7, 2004

Good morning, Mr. Chairman and members of the Committee. I am Logan Magruder, Senior Vice President of Berry Petroleum Company's Rocky Mountain and Mid-continent Regions. Today I am testifying on behalf of the Independent Petroleum Association of Mountain States (IPAMS). IPAMS thanks this committee for holding a hearing on natural gas and including testimony that is focused on domestic sources of natural gas.

In my testimony today, I would like to make three points. First, consumers are paying unnaturally high prices for natural gas because there are many obstacles limiting the development of federally owned natural gas in our own country - including abundant supplies of federally owned natural gas in the Intermountain West. Second, the federal government's action and inaction will continue to affect the nation's natural gas supply by virtue of the fact that the federal government is the dominant owner of the nation's natural gas resources. Third, increasing supplies of natural gas will require continued improvements to the process that governs development of federal energy resources.

Our nation's natural gas supplies are a true domestic product; produced in America, owned by America, and consumed by Americans. Almost ninety-nine (99%) percent of the natural gas consumed in the United States comes from North America, eighty–three (83%) percent of which is produced in the U.S. and sixteen (16%) percent that is imported from Canada. A quick review of some energy statistics helps to underscore the importance of this fuel source to our economy:

- Natural gas provides nineteen (19%) percent of the electric power we use in the U.S.
- Industries get over forty (40%) percent of their primary energy from natural gas
- More than sixty (60) million households nationwide use natural gas for everyday luxuries like heating their homes, taking hot showers, or preparing home-cooked meals

Source: National Petroleum Council

Natural gas is a clean, reliable and affordable fuel for the way we live today, and for future generations. However, production is lagging behind demand causing prices to escalate to unhealthy levels which impacts consumers, businesses and the economy. High natural gas prices impose a hidden tax on consumers, depressing disposable personal income and savings, and ultimately consumer spending, which accounts for two-thirds of the economy.

In response to the growing need for affordable natural gas, independent producers across the U.S. are employing cutting-edge technologies and best practices to explore for and produce natural gas in an environmentally responsible way on non-park, non-wilderness lands. Pipeline companies are making investments into new infrastructure, and the service sector is expanding.

For many obvious reasons, producers are excited about the natural gas potential in the Intermountain West. It is the only region that has materially increased production over the last twenty years and it currently contributes more than twenty (20%) percent of the nation's total natural gas supply. Producers know that the Intermountain West is a frontier region that has the potential to contribute a great deal to the nation's energy supply. More than twenty-five (25%) percent of the nation's natural gas resources exist in the Intermountain West. However, natural gas development in this region is unique from other areas in that more than half of the mineral estate in the Intermountain West is owned by the federal government. The success of this region in becoming a larger exporter of natural gas is inextricably linked to quality and timely access to public lands and an effective regulatory environment.

Many companies would willingly increase their drilling programs on federal lands within the region, but capital expenditures are limited by the delays associated with federal permitting and other regulatory uncertainties associated with federal leases .

Since the federal government owns more than half of the mineral estate in the Intermountain West, Congress must recognize that federal land managers, principally within the Bureau of Land Management (BLM), are also managing America's energy supplies. In the top four producing states in the Intermountain West (Colorado, New Mexico, Utah and Wyoming), fifty-five (55%) percent of the natural gas is extracted from public lands managed by the BLM. (See Chart 1). This is significant: it means that production from federal lands in just four states in the region makes up nearly ten (10%) percent of the nation's natural gas supply. This underscores the significance of the influence that federal regulations and management of the public lands have on natural gas supply.

Unfortunately, today's federal regulatory environment, particularly the permitting and appeals processes, discourages natural gas production on public lands by injecting uncertainty, additional costs, and delays into the process. Take for example the groups and individuals who make a regular practice of protesting and litigating to stop energy development. At a recent lease sale in Utah, producers paid nearly $22,000,000 for the right to lease certain tracts of public land. This money was paid upfront without any guarantee from the federal agency that natural gas development will even be allowed. Almost all of the parcels were protested. These protests are commonplace throughout the West, especially in Utah where a staggering fifty-seven (57%)

percent of all lease parcels offered by the BLM between 2001 and 2003 were protested by groups opposed to development. Notwithstanding the protests and the potential that you may never be allowed to develop the lease, full payment of bonus bids and rentals are required within 10 days of the sale. Despite the fact that the Mineral Leasing Act specifically requires the BLM to process and issue leases within sixty (60) days after the lease sale, it often takes the BLM eight months or more to issue leases. Thus, capital is being locked-up and not being used to develop natural gas supply.

Legal challenges are another factor limiting oil and natural gas development on public lands. At every stage of development, government agencies are challenged by groups seeking to stop natural gas exploration and production. Many of these challenges are frivolous and do nothing more than increase an agency's work load. Land managers will tell you they are constantly forced to second-guess their work and over-engineer their analysis, adding delays and unnecessary costs to already strapped budgets. As legal challenges increase, so too will the delays and uncertainty associated with production of the nation's resources. In the end, there are no winners: consumers and the nation's economy are being hurt. Fortunately, the House recently passed H.R. 4571, the Lawsuit Abuse Reduction Act. It's a good first step to deter the type of frivolous litigation that is artificially constraining domestic energy production.

Leasing public lands for natural gas development is merely the first step in the uncertain journey through the federal regulatory process. Other federal requirements for approving seismic surveys, drilling permits, and rights of way are equally perilous. Although these procedures were intended to be relatively straightforward, implementation and interpretation varies from state-to-state, between field offices, and even among personnel within an office.

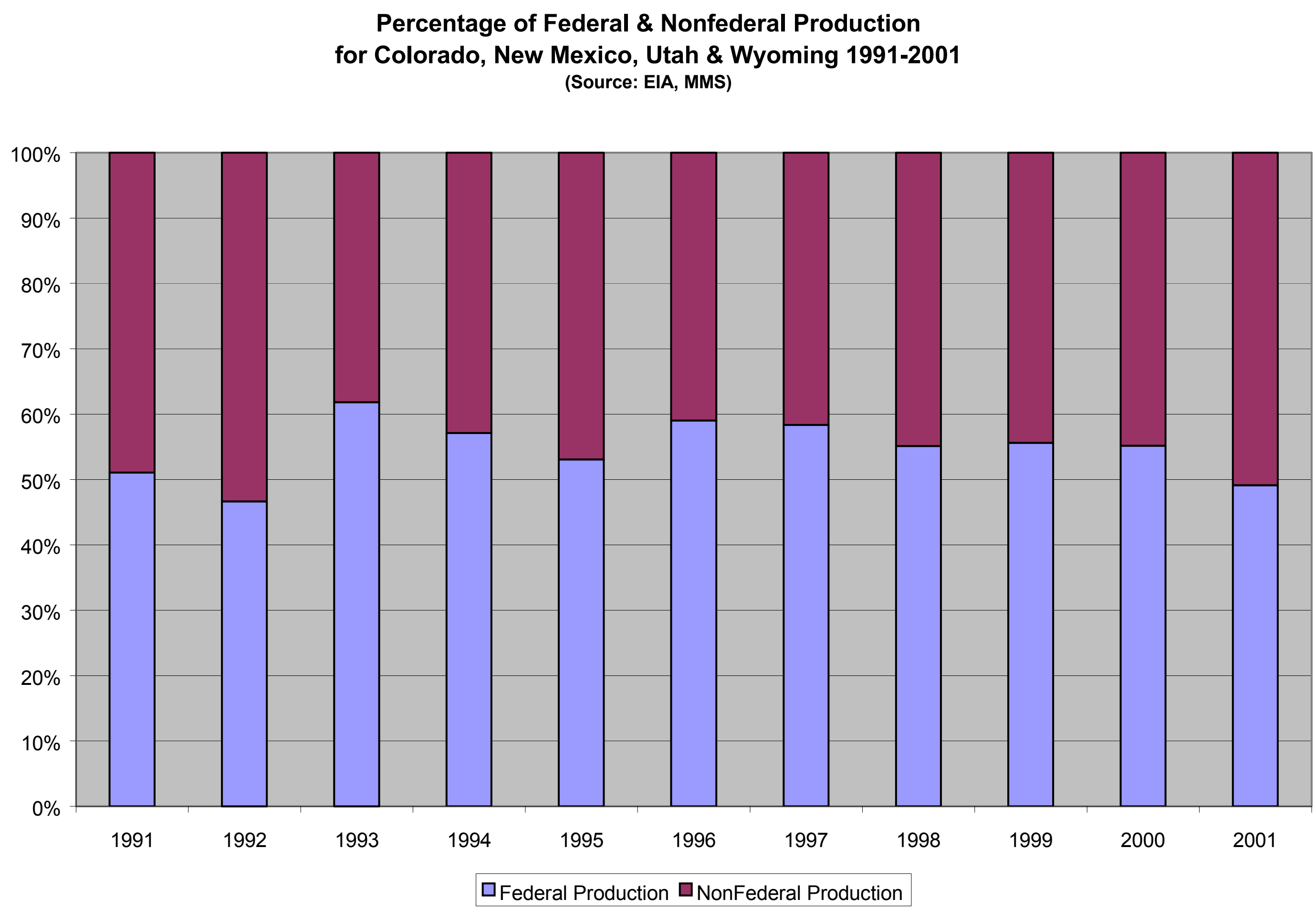
There are no simple fixes to this process. It's not one particular law or regulation, but the cumulative impacts of frivolous appeals and litigation, insufficient funding and staffing for federal land managers and an inefficient system needing more meaningful direction and accountability. Recent policy directives being implemented by the Bureau of Land Management are good attempts to improve natural gas development on federal land, but there is still room to improve the efficiencies of permitting and interagency cooperation.

IPAMS believes that a fundamental change in approach may be required to ensure the timely development of federally-owned natural gas. The shift would move away from an "outcome neutral" approach to energy development, to one that is more "outcome specific" – meeting America's energy needs. This approach would incorporate business principles in the management of federally owned minerals. And like a business, the BLM would be required to develop a plan with specific goals and objectives and strategies for meeting them. Working with industry and other governmental agencies, the BLM could reverse engineer an efficient organization and workflow process that is capable of meeting the current and predicted demand. This process would recognize the importance of thorough yet timely environmental analysis and protection of other valuable resources on public land. But, it would also respond quickly and efficiently to market signals, constantly adapting, as a business must.

In conclusion, we believe it critical for Congress to address the current impediments to developing natural gas on federal land. Independent natural gas producers are committed to helping provide solutions to the nation's growing energy needs. But it is a shared responsibility of government and industry to work in partnership to improve the processes that will allow more energy to be produced for the benefit of consumers, businesses and the economy.

Mr. Chairman and members of the Committee, thank you for allowing me to testify before you today. I am happy to answer any questions you may have.

Chart 1.



Percentage of Federal & Nonfederal Production
for Colorado, New Mexico, Utah & Wyoming 1991-2001
(Source: EIA, MMS)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Federal Production
NonFederal Production