Testimony before the U.S. House of Representatives Subcommittee on Energy and Power

The American Energy Initiative

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I. Introduction: America's Energy Challenge

Chairman Whitfield, Ranking Member Rush, and members of the House Subcommittee on Energy and Power, on behalf of Governor Sean Parnell, the State of Alaska welcomes this opportunity to testify in support of the American Energy Initiative. More specifically, we want to demonstrate to this committee and the rest of your colleagues in the U.S. Congress the vital role Alaska can play in enhancing America's long-term energy security, expanding American employment, growing the economy, providing significant revenue to federal, state, and local governments, and delivering billions of barrels of domestically produced hydrocarbons to the U.S. marketplace.

Biographical Information

Before getting into substantive matters, I would like to briefly mention my professional background as it pertains to this testimony. I have been serving as commissioner of the Alaska Department of Natural Resources (DNR), a state agency of over 1,100 personnel, since December 2010. Under the Alaska Constitution, my primary responsibility as the DNR commissioner is to maximize the development of the state's resources in a manner that furthers the public interest. DNR is responsible for managing the State of Alaska's vast land, energy, and natural resources with approximately 100 million acres of uplands, 60 million acres of tidelands, shore lands, and submerged lands, and 40,000 miles of coastline. DNR manages one of the largest portfolios of resources in the hemisphere.

Prior to being appointed as the DNR Commissioner, I served as Alaska's Attorney General. One of my areas of focus was on issues relating to natural resource management and development. From May 2006 to January 2009, I served as the U.S. Assistant Secretary of State for Economic, Energy, and Business Affairs, where much of my work focused on international energy issues, including serving as the U.S. Governing Board member of the International Energy Agency. Prior to my time as U.S. Assistant Secretary of State, I served as a Director in the International Economics Directorate of the National Security Council and National Economic Council staffs at the White House. I am also a United States Marine, having served on active duty and in the reserves as an infantry and reconnaissance officer since 1993.

America's Energy Challenge—Our Country's Need for Domestic Energy Production

This subcommittee has properly recognized that some of our country's biggest challenges center on energy security, national security, employment, and the national deficit. Pursuing smart policies that promote responsible energy development in America can help the country meet and overcome these challenges.

Alaska is a leader in promoting all types of energy, including our massive renewable energy base of hydro power, geothermal, wind, and biomass. We are also a national leader in promoting energy efficiency throughout the state. We cannot, however, talk about strategies to ensure our country's energy security without discussing our critical need to increase domestic production of oil and gas. Imposing needless delays and halting domestic production is not the solution, particularly with oil prices at $120/barrel and the average price of gasoline nearing $4/gallon. Alaskans are feeling this pinch more than most, with the average price of gas in Anchorage at $4.07 and $4.46 in the North Slope community of Barrow. The International Energy Agency is also forecasting that OPEC countries will receive over a trillion dollars in oil revenues from exports this year. There is much that the State of Alaska can do to help ensure our country's long run energy security.

Today's Testimony

I am here today to explain how Alaska stands ready to be a critical partner with the federal government to help our country meet its energy security challenges. My testimony will focus on the following:

- Alaska's North Slope remains a world class hydrocarbon basin
- Alaska's strong record of responsibly developing resources while protecting the environment
- The Trans-Alaska Pipeline System (TAPS) is one of America's most important energy infrastructure assets
- The State of Alaska's efforts to arrest the TAPS throughput decline and increase North Slope production
- Recent federal decisions and policies that have focused on proactively shutting down resource development in Alaska
- Alaskan's broad-based frustration with such federal policies
- The State of Alaska wants to partner with the federal government to increase TAPS throughput to ensure we reach our shared goals of boosting domestic production and decreasing our dependence on foreign oil

As this testimony will demonstrate, the State of Alaska supports legislative measures that bring clarity, certainty, and timeliness to the permitting process and therefore is in favor of the goals set out in the Discussion Draft of H.R.__, the "Jobs and Energy Permitting Act of 2011."

II. Alaska's North Slope Remains a World Class Hydrocarbon Basin

Alaska is one of the nation's most critical and prolific oil-producing states. Even though production is only about one third of what it was at its peak in 1989, Alaska's North Slope, both on and offshore, remains a world-class hydrocarbon basin with extraordinary potential. According to the U.S. Geological Survey (USGS), Alaska accounts for over 30% of the nation's technically recoverable oil and gas resources, with the North Slope estimated to hold

approximately 40 billion barrels of technically recoverable conventional oil and 236 trillion cubic feet of natural gas.

Alaska's Outer Continental Shelf (OCS) constitutes an important share of these totals, with an estimated potential for 27 billion barrels of conventional oil and 132 trillion cubic feet of natural gas. Studies have found that Alaska Beaufort and Chukchi Sea development could result in about 700,000 barrels of oil per day for 40 years. This is equivalent to the amount of oil that the United States imports each day from Iraq and Russia combined.

Considerable reserves also exist onshore. A United States Geological Survey (USGS) report in 1998 showed that the 1002 Area in the Arctic National Wildlife Refuge (ANWR) may have the highest potential for an enormous oil field of any place onshore in the United States, with an estimated 10.4 billion barrels of crude reserves. Some estimate that production from ANWR alone could reach one million barrels per day (bpd), which is an amount that exceeds the country's 2010 imports from Venezuela (827,000 bpd) and Saudi Arabia (958,000 bpd).

In addition to conventional oil and gas reserves, Alaska's North Slope contains massive quantities of unconventional resources: shale oil and gas, heavy and viscous oil, and gas hydrates. The U.S. Department of Energy has estimated that there is 36 billion barrels of heavy oil on the North Slope. (No current estimates exist of Alaska's shale oil and gas reserves.) Most of these unconventional resources are located onshore near existing infrastructure. Energy companies are beginning to investigate developing some of these resources in Alaska.

Despite the extraordinary production and massive hydrocarbon potential, Alaska remains relatively underexplored compared to any other prolific oil and gas region in North America. Only 500 exploration wells have been drilled within a 150,000-square-mile area on the North Slope—an area that maintains the highest undiscovered conventional oil and gas potential in Alaska. That calculates to three wells per 1,000 square miles. As a comparison, 75,000 square miles within the state of Wyoming, endowed with high oil and gas potential, has more than 19,000 exploration wells, or about 250 wells per 1,000 square miles.

With this remarkable potential, Alaska can play a pivotal role in helping our country meet its significant energy and security challenges; reduce our reliance on foreign oil; provide

thousands of high paying jobs; reduce the nation's trade deficit; and provide significant revenue to local, state, and federal governments.

III. Alaska Has a Strong Record of Responsibly Developing Resources While Protecting Our Environment; We Are Also a Leader in Environmental Research

Alaska has some of the most stringent environmental policies and regulations in the world and we are a leader in research for sound natural resource development. We love our state, not only for its economic opportunities, but also for its natural beauty, and we are very focused on protecting our environment.

The State of Alaska strongly believes that responsible resource development and protecting the environment go hand in hand and we have a strong record of upholding the Alaska Constitution's mandate that the state pursue responsible resource development in a manner that safeguards the environment.

Alaska's Robust Efforts to Protect the Environment

To ensure responsible resource development while protecting the environment, the state has devised a comprehensive system that imposes rigorous environmental protections. What follows are just a few of the measures the state requires before oil and gas development can proceed.

- State agencies follow a rigorous scientific protocol to ensure the right combination of snow depth and temperature are met before allowing cross-tundra travel or construction of ice roads. Such protections ensure that the tundra is not degraded.
- Before drilling wells, operators must get approval from the state and explain how they will comply with strict mitigation measures imposed by regulatory agencies; they must demonstrate that their blow-out prevention equipment (BOP) is up to the state's high standards; and they must get approval for their oil-spill contingency plan.
- The state encourages the unitization of leases that overlie reservoirs to minimize the environmental impacts of development.

- Alaska law for oil discharge prevention and contingency planning requires the plan holder to be able to contain or control and clean up the realistic maximum oil discharge within 72 hours.
- Alaska is the only state or federal governmental jurisdiction that regulates flow lines. Flow lines transport three phase liquids from the well head to the processing centers, which separate gas and water from crude oil. Flow lines are viewed as having the greatest corrosion potential and are therefore considered to be the highest risk.
- Alaska mandates that operators use the best available technology for oil discharge containment, storage, transfer, and cleanup.
- State agencies impose significant bonding requirements.
- Wildlife are closely monitored and protected. Just last month, after a petroleum worker notified the U.S. Fish and Wildlife Service (USFWS) that a polar bear had emerged from a den near their drill site, the operation was shut down and all 50 employees evacuated in less than 12 hours.

Our efforts at protecting the environment and wildlife have been successful. For example, when debating the development of TAPS, many predicted that oil and gas development would decimate caribou herds. These predictions have not come true. In fact, caribou numbers have increased dramatically over the past thirty years. The Central Arctic caribou herd, which occupies summer ranges surrounding Prudhoe Bay, has grown from 5,000 in 1975 to over 66,000 today.

Even with a robust regulatory regime, the state continues to look for ways to improve its regulatory oversight. To this end, the state is engaged in a comprehensive gap analysis to better understand the spectrum of state agency oversight; better understand the effectiveness of authorities and enforcement over oil and gas operations; and to identify gaps or redundancies in state oversight and determine if they need to be filled or eliminated as appropriate.

Because of the efforts taken by federal, state, and local governments and the energy industry, oil and gas development in Alaska is conducted in a safe and responsible manner with standards that exceed most other jurisdictions in the world.

Alaskan Innovations Minimize Environmental Impacts

In addition to the state's regulatory oversight, Alaska is a leader in innovations that protect the environment. For example, extended reach drilling, horizontal wells, multiple completions, and close-surface well spacing were all invented and pioneered for use in Alaska. These advances in drilling technology have greatly reduced the footprint of modern exploration and development wells in Alaska, while expanding their ability to stretch vertically and horizontally underground. .

Safety and Spill Prevention in the Alaska OCS

Alaska has a strong record for safe OCS exploration. Prevention is always the first step in responsible environmental protection. Federal and state regulatory agencies impose some of the most rigorous requirements in the world to prevent well blow-outs and spills. Eighty-four exploratory wells have been safely drilled in federal waters off Alaska, with thirty-one wells drilled in the Beaufort Sea and five wells drilled in the Chukchi Sea.

In terms of safety and spill prevention, it is important to recognize that current plans for Alaska's OCS development are in water depths of approximately 150 feet, which nullifies many of the risks associated with deepwater drilling. Further, the state reviews all OCS exploration drilling and spill response plans through the Alaska Coastal Management Program to ensure that those activities are consistent with Alaska standards.

In the wake of the *Deepwater Horizon* spill in the Gulf of Mexico, it is understandable and appropriate to re-evaluate safety requirements for extreme deepwater exploration and production. It is critical, however, to underscore some of the material differences in operating conditions and risks between deepwater drilling in the Gulf of Mexico and the Alaska OCS:

- Oil and gas development in the Alaska OCS will occur in shallow water (150 feet compared to deepwater wells of 3,000 to 10,000 feet).
- The wells are drilled at less than 10,000 feet deep, compared to deepwater wells drilled at 18,000 feet plus.

- The pressure encountered in deepwater drilling is multiple times greater in the Gulf of Mexico than in Alaska.
- The wells and technology used in exploration activities in the Alaska OCS have been safely employed for decades.
- There is a robust review process by state and federal regulators in Alaska.

The state takes its job of ensuring that appropriate resources are in place to respond in the event of an offshore oil spill very seriously. The initial responders to any oil spill in Alaska are the entities responsible for the spill and their spill-response contractors. For example, in the unlikely event of an oil spill or blowout, Shell will have an oil-recovery ship and tanker built for Arctic ice conditions, a relief drill rig, and other cleanup vessels on standby. With this equipment at hand, Shell says it will be ready to clean up oil within an hour of an event. Federal and state regulators will monitor these cleanup efforts from vessels and aircraft.

Substantial Studies Have Been Conducted Regarding Alaska OCS Development

Despite the considerable energy security and economic benefits of Alaska OCS development, some have suggested that before leasing additional OCS acreage, more scientific studies need to be conducted. We disagree.

As part of the North Slope Science Initiative (NSSI), there are over 50 organizations and initiatives currently doing scientific work in the Arctic. The NSSI is formally authorized by the Energy Policy Act of 2005; its mission is to improve scientific and regulatory understanding of terrestrial, aquatic, and marine ecosystems in Alaska's North Slope region for consideration in the context of resource development activities and climate change.

Since 1973, federal agencies have performed more than 5,000 environmental studies to better understand the Alaska OCS. Over the past 30 years, the Department of the Interior (DOI) has funded nearly $300 million for environmental studies in Alaska. And since 2000, it has conducted 30-40 environmental studies each year, spending over $45 million.

Additionally, the National Academy of Sciences has produced three Alaska OCS reports on environmental science which guide OCS activity. Industry has also spent millions to better understand the Arctic ecosystem; Shell alone spent over $40 million in the last several years on environmental studies.

On this strong scientific basis, the Obama Administration's Department of the Interior released a "Survey of Available Data on OCS Resources and Identification of Resource Gaps" in 2009. In this report, the DOI concluded: "Overall, an adequate baseline of information exists to address the environmental effects of the OCS oil and gas program…in support of leasing decisions." Thus, according to the current administration, sufficient studies have been conducted to support oil and gas leasing.

IV. Co-Located With Alaska's Massive Hydrocarbon Basin Is One of America's Most Important Energy Infrastructure Assets: TAPS

The Trans Alaska Pipeline, 11 pump stations, several hundred miles of feeder pipelines, and the Valdez Marine Terminal constitute the Trans-Alaska Pipeline System (TAPS). At 800 miles long, the Trans Alaska Pipeline is one of the longest pipelines in the world; it crosses more than 500 rivers and streams and three mountain ranges as it carries Alaska's oil from Prudhoe Bay to Valdez.

Congress Was Instrumental in the Development TAPS

Spurred by global concern over the 1973 oil crisis (OPEC embargo) and spiking energy prices that resulted in a severe U.S. and global recession, the U.S. Congress was instrumental in the approval and rapid development of TAPS. Congress approved construction of the pipeline with the Trans Alaska Pipeline Authorization Act of 1973. The principle focus of this Act is as relevant today as it was in 1973: "the early development and delivery of oil and gas from Alaska's North Slope to domestic markets is in the national interest because of growing domestic shortages and increasing dependence upon insecure foreign sources."

Underscoring the urgency of the country's precarious energy security position, the Trans Alaska Pipeline Authorization Act also halted all legal challenges to delay construction of the pipeline and ensured that additional government studies would not be used to delay construction.

Under its Congressional declaration of purpose the Act states: "The purpose of this chapter is to insure that, because of the extensive governmental studies already made of this project and the national interest in early delivery of North Slope oil to domestic markets, the trans-Alaska oil pipeline be constructed promptly without further administrative or judicial delay or impediment. To accomplish this purpose it is the intent of the Congress to exercise its constitutional powers to the fullest extent in the authorizations and directions herein made and in limiting judicial review of the actions taken pursuant thereto."

The first oil entered the pipeline in June of 1977. Since that time, TAPS has transported over 16.3 billion barrels of oil and natural gas liquids for the U.S. domestic market. Oil and natural gas liquid production through TAPS peaked at 2.2 million barrels per day in the late 1980s, representing 25% of the U.S. domestic production. Since its peak, however TAPS throughput has steadily declined. By 2003, production was down to one million barrels a day. Today, TAPS throughput averages about 640,000 barrels per day.

TAPS Throughput Decline Raises a Host of Difficult Issues

The reduced flow of oil through TAPS has reached a point where the pipeline is now approximately two thirds empty. Continued throughput decline raises a host of technical challenges due to the slower velocity of oil in the pipeline, longer transit times, and the resulting dramatic lowering of the temperature of oil during the winter months. These challenges include wax buildup, frost heaves, and ice crystals and ice plugs. The likelihood of these problems occurring increases with lower throughput, and they can cause additional TAPS shutdowns and oil leaks that could harm the environment. This past January, TAPS was shut down for five days as the result of a leak at Pump Station 1 that was contained in a building.

The State of Alaska is working with industry to ensure that we are prepared to address these additional challenges in the near term as TAPS throughput decline continues. The state has also been prepared to take more aggressive actions, such as litigation, with regard to these matters where appropriate. But clearly, the most effective way to address these technical challenges and the environmental risks that they may entail is to increase TAPS throughput.

A Premature Shutdown of TAPS Would Significantly Undermine U.S. National Security and Energy Security Interests and Would Devastate the Alaskan Economy

The January 2011 shutdown of TAPS, during the heart of a cold Alaskan winter, not only focused attention on the significant technical challenges of decreased TAPS throughput, but also raised the specter of a broader premature shutdown of TAPS. Such a shutdown would significantly undermine U.S. national security and energy security interests and would devastate the Alaskan economy.

A premature shutdown of TAPS would result in the stranding of billions of barrels of domestic oil in America's largest hydrocarbon basin. Oil prices would continue to soar. Thousands of jobs would be lost. U.S. refineries would likely have to turn to foreign sources of oil, as they did when TAPS shutdown in January, thereby increasing the U.S. trade deficit and undermining American national and energy security.

A premature TAPS shutdown would also have a crushing impact on Alaskans. It has been estimated that one third of the Alaska economy is connected to the oil industry. The loss of North Slope oil production would deprive state and local governments of billions of dollars in annual revenue—in 2009, the state's total taxes and royalties from oil and gas production was $6.1 billion. Government services including education, public safety, and health care would be slashed and infrastructure projects would be significantly curtailed. Rural communities, particularly those that have significantly benefitted from oil development such as the North Slope Borough, would face a significant decrease in their standard of living.

But continued TAPS throughput decline does not need to be Alaska's or the country's destiny. The massive North Slope hydrocarbon resource base remains available for development. What is needed to ensure a reversal of this decline are state and federal policies that promote increased investment, responsible resource development, and increased job creation on the North Slope.

V. The State of Alaska Is Doing All It Can to Arrest the TAPS Throughput Decline in Order to Achieve the Goal of One Million Barrels of Oil per Day within 10 Years

The State of Alaska is pursuing several major policy initiatives to arrest the TAPS throughput decline. The cornerstone of this effort is Governor Parnell's recent proposal to the Alaska Legislature to increase Alaska's global competitiveness by enacting significant tax reform. Under Governor Parnell's plan, production taxes will be lowered and the state will offer credits to incentivize additional drilling.

The state is in the process of enacting other reforms that will attract more investment and, ultimately, increase oil production on the North Slope and employment for Alaskans. For example, the Governor's budget focuses on developing significant infrastructure projects to build more roads to our abundant resources. We are also seeking to reform our permitting system to enhance timeliness, predictability, and efficiencies.

One Million Barrels of Oil Per Day Within 10 Years

Over the past twenty years, North Slope production has steadily declined. TAPS is currently producing about 640,000 barrels per day. During the last several years, this throughput decline has averaged 6% per year. In the face of steadily declining production, Governor Parnell recently announced an ambitious but critical goal for Alaska and the country to increase TAPS throughput to one million barrels of oil production per day within a decade. This ambitious goal will be supported by an overall state strategy that seeks to:

- Enhance Alaska's global competitiveness and investment climate.
- Facilitate and incentivize the next phases of North Slope development: Gas, OCS, federal onshore lands, heavy and viscous oil, shale oil, and smaller pools of conventional oil.
- Promote constructive partnerships between the state and industry to facilitate increased investment, exploration, and production while protecting the state's interests and safeguarding the environment.
- Unlock Alaska's full resource development potential through an improved federal partnership.

- Promote Alaska's abundant resources and positive investment climate to domestic and international markets.

The policies described above will significantly benefit Alaska, but will also significantly benefit our fellow citizens in the lower 48 as they struggle with spiking oil and gas prices that affect their livelihood and standard of living. Unfortunately, the executive branch of the federal government does not have a similar focus. Indeed, as detailed below, their focus has been to proactively shut down or delay resource development throughout Alaska.

VI. Federal Decisions and Policies Have Sought to Proactively Shut Down Resource Development in Alaska

Many of the most promising oil and gas resources in Alaska are in federal lands. Development of these lands, in particular from the OCS, Arctic National Wildlife Refuge, and National Petroleum Reserve – Alaska (NPR-A), could result in production of over a million barrels of oil a day. Unfortunately, the federal government has consistently denied access to these lands, made decisions that have added significant delays to promising projects, and pursued policies that have chilled the investment climate.

More specifically, the federal government has a made a series of decisions that prevent or stall responsible development of domestic energy in Alaska. We believe that the following list will be of concern to members of this committee and your colleagues in Congress.

NPR-A (A Region Specifically Set Aside for Oil Exploration and Production)/CD-5 Critical Permit Denial

Last winter, the U.S. Army Corps of Engineers (Corps) derailed ConocoPhillips (CP) development of CD-5, which is a field on the eastern edge of the NPR-A. Once infrastructure is in place, CD-5 will open satellite fields in the eastern NPR-A to development. The state, CP, and Native communities worked with the Corps for years on the project to ensure that responsible safeguards are in place to open this field to development. In response to concerns raised by some stakeholders, the project was modified to minimize environmental impacts and the project garnered strong support from all stakeholders. After years of collaboration, the

permits were considered a foregone conclusion. The first production from CD-5 was expected to start in 2012.

Nevertheless, in February 2010, the Corps reversed course and denied CP's permits to construct a drill pad, a pipeline/vehicle bridge across the Nigliq Channel in the Colville River Delta, and access roads. The Corps concluded that there are practicable alternatives to the bridge, drill pad, and roads that would have fewer environmental consequences. This decision was apparently impacted by the EPA's designation of the Colville River as an Aquatic Resource of National Importance (ARNI)[1], in which the EPA can determine that issuance of a permit will result in unacceptable adverse policies and procedures.

More specifically, the District Engineer found that CP should use Horizontal Directional Drilling (HDD) under the Nigliq Channel to access the reservoir. The HDD alternatives effectively eliminate a road, including the Nigliq Channel bridge, that would have provided direct access between CD-5 and existing production, operations, logistics, and transportation infrastructure at the Alpine facilities.

Many Alaskans viewed the Corps decision as a blanket attempt to shut-down NPR-A development; particularly given that Alaska state agencies viewed the Corps recommended approach—a pipeline under the river—as much more environmentally risky. The District Engineer's decision was opposed by all the affected surface and subsurface land owners, most of them Alaska Natives. (The State owns the subsurface rights of two leases affected, as well as the Nigliq Channel river bed.)

The permit denial was eventually appealed and the Corps' Pacific Ocean Division issued a decision on December 2, 2010, remanding the District Engineer's denial of CP's permit request to the District Engineer. Nevertheless, the status of CD-5, after five years of delays, remains uncertain, thereby chilling the investment climate over the entire NPR-A—an area set aside specifically by Congress for oil and gas exploration and development.

[1] An Aquatic Resource of National Importance (ARNI) is a resource-based threshold used to determine whether a dispute between the EPA and the Corps regarding individual permit cases are eligible for elevation under the 1992 Memorandum of Agreement between the two agencies—an agreement required by Section 404(q) of the Clean Water Act.

DOI's Wild Lands Designation

Another decision chilling the investment climate in the NPR-A and beyond is the federal government's new "Wild Lands" policy. Secretary Salazar recently issued Secretarial Order 3310, which empowers the BLM to convert vast areas of Alaska, including the NPR-A, into a de-facto wilderness area without Congressional oversight or approval. State officials have heard from many resources companies who have said if state lands receive a Wild Lands designation they may not continue to invest in Alaska. The state is therefore very concerned that this order will chill the investment climate, and, if implemented, would shut-down resource development in the NPR-A and other areas of Alaska. For this reason, the state (and other states) is examining legal options to prevent such a designation.

OCS Permitting Delays Shutting Down Exploration Activities

The greatest potential for significant oil and gas production lies in the OCS. In recent years, Shell and other leading energy companies have spent billions of dollars to acquire leases and explore the OCS. Shell has also received approval for several exploration plans and has acquired over 34 federal permits to drill exploration wells. Yet its exploration plans have been repeatedly derailed; first by the 9th Circuit Court of Appeals in 2008 and more recently by the DOI and the Environmental Protection Agency (EPA).

Shell has proposed drilling activities for the Beaufort Sea on its leases. In November 2006, Shell submitted the first version of its exploration plan for the Beaufort Sea region. Shell's exploration plan details its plan to drill up to twelve exploratory wells on twelve lease tracts in the Beaufort Sea between 2008 and 2011. (The lease blocks stretch from the Colville River Delta eastward to the Canadian border.)

Litigation filed by environmental groups, however, derailed these development plans.

Shell submitted a new exploration plan for the Beaufort Sea, which was approved by the Minerals Management Service (MMS). After the MMS approved the development plan, environmental groups filed suit. In the spring of 2010, Shell, the state, and the Obama Administration successfully defended the permits before the 9th Circuit. It looked like Shell was

finally going to be able to drill exploration wells in the OCS in the summer of 2010. Then the Macondo well disaster happened and the Obama Administration reversed course and suspended all operations in the OCS.

More specifically, DOI Secretary Salazar, in a press release, congressional testimony, and at a press conference in Alaska, stated that he was imposing an Arctic Moratorium on OCS exploration and development. The state sued the DOI, alleging that the moratorium conflicted with several federal laws. The Bureau of Ocean Energy Management and Regulatory Enforcement (BOEMRE) responded by denying the existence of a moratorium; they then began to process Shell's exploration plan. For these reasons, the U.S. District Court granted the federal government's summary judgment motion. One day before the court's decision, however, NOAA stated in the Federal Register that it would not issue an incidental take authorization for Shell because DOI had suspended operations in the OCS.

Shell recently announced that it was canceling its exploration plans for this summer because it was unable to secure an EPA air permit. After acquiring over 34 permits in support of its drilling operations and spending billions of dollars over the past five years, Shell still has not drilled one well in the Alaska OCS. It is not surprising that this episode has put into question the viability of developing the massive Alaska OCS hydrocarbon reserves.

ANWR Wilderness Designation

The USGS has demonstrated that perhaps the greatest potential in America for an onshore elephant-size field is in the 1002 Area of ANWR. Despite this potential, the federal government has consistently refused to open the 1002 Area to exploration. More recently, the USFWS is reviewing whether to designate the 1002 Area in ANWR as "Wilderness," which would essentially lock-up ANWR from any oil and gas development. In the Federal Register notice, the USFWS expressly prohibited the public from filing comments related to oil and gas activity. The state believes that such action conflicts with federal laws—under the National Environmental Protection Act (NEPA) and the Alaska National Interest Lands Conservation Act (ANILCA), the USFWS must consider the benefits of oil and gas development before making a

recommendation to Congress on a Wilderness designation. We have made this view known to the USFWS.

These decisions have been made in the face of overwhelming public support for oil and gas development in the 1002 Area. Polls consistently show that over 73% of Alaskans support ANWR development. The North Slope communities, including residents of ANWR, also strongly support development. And over the past 30 years almost every single member of the Alaska State Legislature has voted on resolutions in support of ANWR exploration and development.

For these reasons the state continues to protest any plan or wilderness review process that further encumbers the potential for oil and gas development on the coastal plain of ANWR. Americans throughout the country should be concerned with this attempt to shut down responsible resource development in the 1002 Area. It makes no sense to the state that the USFWS wants to lock up an estimated 10 billion barrels of domestic oil. Oil and gas development in the 1002 Area would provide secure on-shore domestic supply of energy for the nation, create tens of thousands of jobs nationwide, ensure the continued operation of the TAPS for years to come, and could help meet U.S. demand for 25 years or more.

200,000 Square Miles of Critical Habitat Designated for Polar Bears

The polar bear and its habitat are already well managed and conserved by Alaska, international agreements, conservation programs, and state and federal law. These laws and policies make the polar bear one of the most protected species in the world. Nonetheless, the USFWS recently designated nearly 200,000 acres of the North Slope —which covers an area larger than the size of California—as critical habitat for the polar bear. Never before has the USFWS interpreted its authority to designate such a vast expanse of critical habitat for a species. Worse, the USFWS acknowledges that the designation will not provide significant additional conservation measures for the polar bear and its habitat and that the primary claimed threat to the species (loss of sea ice due to climate change) will not be alleviated by this designation.

Despite providing no benefits, the critical habitat designation imposes another layer of costly regulation on Alaska, its citizens, and its economy. The state and many others believe that

the USFWS's massive critical habitat designation violates federal law, will impede North Slope resource development, and will generate countless lawsuits filed by environmental groups to stall every phase of an oil and gas development project. Such lawsuits would delay projects, foment regulatory uncertainty, and increase the cost of doing business in Alaska.

Ocean Zoning/Marine Spatial Planning

President Obama recently signed an Executive Order creating a new federal bureaucracy tasked with setting ocean policy and requiring marine spatial planning (ocean zoning) in all U.S. waters. Executive Order 13547 could have significant adverse impacts on commercial use and development in the oceans and coastal zone.

Point Thomson EIS Delay

ExxonMobil has committed to a Point Thomson development plan to produce approximately 10,000 barrels of natural gas condensate starting in 2014. The EIS, however, has not been processed in a timely fashion. As a result, the start-up date for the project has been delayed from 2014 to 2015.

The Cumulative Impact of These Federal Decisions: Broad Based Policy Failure

As this section demonstrates, the federal government has consistently sought to delay, shut down, or prevent resource development in Alaska through its decisions and broad policy mandates. Rarely has there been a federal policy that fails on so many fronts:

- Economic and job security—these policies have killed hundreds of jobs in Alaska.
- Trade deficit—shutting down resource development in Alaska ensures that we import more oil from overseas.
- Federal budget deficit—by denying Americans access to their own lands to produce oil, the federal government is foregoing billions in federal revenues, and instead Americans are forced to help fill the treasuries of countries such as Venezuela, Russia, and, Saudi Arabia.

- Energy security—foregoing and shutting down development of Alaska's massive sources of domestic energy undermines U.S. energy security.
- Foreign policy—On February 25, 2011, Governor Parnell gave a speech in Washington to the National Press Club detailing how the federal administration's antidevelopment policies undermine our foreign policy, and relegates the U.S. State Department to a reactive role given our dependence on foreign oil.

It is also important to underscore that the current federal administration's decisions and policies do not advance global environmental protection. To the contrary, they do the opposite. When oil and energy development in Alaska is shut down by our own government, development for such resources is driven overseas to places like Brazil, Russia, Iraq, Azerbaijan, and Saudi Arabia. Environmental standards in these places are not nearly as strong or strictly enforced as in Alaska, where stringent regulations are the hallmark of hydrocarbon production on the North Slope.

VII. There Is Deep, Broad-Based Frustration Throughout Alaska with the Federal Government's Anti-Development Policies and Decisions that Impede Responsible Resource Development

During my first three months as DNR Commissioner, I have attended hundreds of meetings across the state with community, business, and government leaders. The most striking observation is the overwhelming frustration among all participants with the federal government's anti-development policy that impinges on the state's ability to develop our own resources—to support ourselves, our nation, and our economy. Alaskans' frustration with federal policies extends to Democrats, Republicans, Independents, Native leaders, and industry; all have expressed dismay over the recent pattern of federal decisions that impede and shutdown resource development.

Such frustration is exacerbated when Alaskans see the President encourage and welcome ultra-deep water oil drilling in Brazil, which has environmental standards and protections far inferior to those in Alaska, while his administration consistently denies Alaskans the opportunity to develop our own resources at home. Governor Parnell spoke for many Alaskans when he stated that: "the federal government should be focusing on increasing responsible energy

development in America, not in Brazil....Our country has existing energy resources that stand ready to be produced. There is no more stable market in the world than here in America."

Frustration with the federal government's policies and decisions is a bi-partisan affair in Alaska. For example, on February 28, 2011, fourteen prominent Democratic state legislators submitted a letter to the Secretary of the Interior, Assistant Secretary of the Army, and the Administrator of the Environmental Protection Agency, to urge these agencies to resolve the issues with ConocoPhillips' permit application to build a bridge over the Colville River to access the CD-5 field in the NPR-A. They believed that oil that would be accessed by this development is crucial to the viable, long-term running of TAPS. More specifically, they noted that, "in Alaska, this view is shared by Democrats, like us, and Republicans. It is not a partisan issue. There are environmentally responsible ways to access the CD-5 segment of NRP-A, and we believe Conoco's application meets these standards. Delay in development of this area is dangerous both to Alaska's economy and the nation's energy security. . . . We hope to convey that this is an issue of bi-partisan, economic urgency to Alaskans. We respectfully request that this issue be resolved favorably as quickly as possible."

Prominent Alaska Native groups are also experiencing mounting frustration over federal resource development policies, many of which they feel threaten their subsistence lifestyle and potential job opportunities for struggling rural communities. For example, the Arctic Slope Regional Corporation (ASRC), which owns title to nearly five million acres of land on Alaska's North Slope and represents 11,000 Inupiat Eskimo shareholders, and 10 other Alaska Native organizations have recently filed a notice to sue the federal government over its unprecedented designation of critical habitat for polar bears covering nearly 200,000 square miles of the North Slope.

Tara Sweeney, ASRC's Senior Vice President of External Affairs, stated in a January Op Ed in the *Anchorage Daily News* that the "critical habitat designation should concern all Americans…it is a poor attempt to legislate climate change through regulation, a failure of national security policy, and simply bad federal Indian policy…Alaska's resources are an important part of the nation's energy supply, an our own government is choking this supply. The U.S. will be forced to import energy resources from hostile regions like the Middle East or

Venezuela. This is a defective approach to domestic energy policy and clear and present danger Alaska Native communities."

As this committee is likely aware, this frustration with the federal government's anti-resource development policies extends beyond Alaska. Governor Parnell captured not only Alaskans' frustrations with federal policy, but also those of other states in a recent *Wall Street Journal* Op Ed: "Millions of American jobs are directly tied to our energy sector. Even as the energy sector necessarily diversifies, oil will continue to be a key piece of our national energy profile for many decades. And yet Alaska and the Gulf states have been blocked from developing America's oil by politically driven federal policy, much of it aided by misinformation. If Americans wonder what our economic Achilles' heel is, they need look no further than the federal regulatory system that delays permits for domestic exploration and production... By delaying leasing and permitting for exploration and development, and by locking up lands without congressional approval or authority, these agencies have locked down domestic oil with no responsibility for the consequences. The rest of us feel them: increased reliance on Middle East oil and lost economic opportunity."

VIII. Frustration with Federal Actions Has Spurred the State To Consult with Federal Officials to Reverse Policies and Decisions that Shut-Down Resource Development and, When Necessary, Litigate Over These Decisions

In response to the federal decisions and Alaska's frustration over these decisions the state has repeatedly reached out to federal officials to explain why their decisions are not in the public interest. [2] For example, on all of the issues discussed above, state officials, including the Governor, testify before committees, provide scientific documents and speak with federal officials, including cabinet-level secretaries, to explain why we support certain development activities. In these interactions we always look for areas of agreement.

But when the state has exhausted every administrative and legislative remedy, we turn to our judicial system. The state has found it necessary to litigate when it believes that the federal

[2] These decisions range from delays to Shell's offshore exploration plans; a USFWS planning process on the ANWR's coastal plain; a Corps of Engineers rejection of ConocoPhillips'CD-5 development plan at the NPR-A; a marine spatial planning project; proposed "Wild Lands" designation; to decisions under the ESA related to the polar bear.

administration's decisions to shutdown or derail resource development violate federal law. For example, the state has filed lawsuits against the federal government protesting the de facto North Slope OCS moratorium, ESA listings, and critical habitat determinations.

Another source of the state's frustration centers on the Obama Administration's lack of transparency and the failure to consult with the state prior to making decisions that have a profound impact on the state's economy and its residents. For example, the DOI, prior to announcing an OCS moratorium in a May 2010 press release, failed to consult with the state. The administration's failure to provide such notice violates federal law. Similarly, I met with a senior DOI official to specifically request that the administration provide more notice to the state and allow for state input before taking adverse actions that impact our interests. Twelve hours later, after being assured we would be given notice on future decisions affecting Alaskans, DOI announced a new Wild Lands policy without any notice or input from the state.

IX. The State of Alaska Wants to Partner with the Federal Government to Increase TAPS Throughput to One Million Barrels Within a Decade to Help Reduce the Country's Import of Foreign Oil

The State of Alaska will continue to defend Alaska's interests by trying to persuade the federal government to abandon its anti-development policy in Alaska. Where persuasion fails, we will continue to litigate such matters. In so doing, we strongly believe that we are also defending and promoting broader American interests. All Americans should be concerned about federal government policies that undermine U.S. interests across such a broad spectrum of critical areas. In particular, the viability of TAPS as a continuing critical component of our nation's energy security infrastructure is an issue for all Americans. It is on this issue that the federal government can play a critical role.

Although both economics and federal policies are in play, the viability of TAPS is more of a political issue than an economic one. As a threshold matter, Alaska's North Slope has huge reserves and it is still relatively underexplored. Thus, the issue of TAPS' viability does not center on whether we have enough hydrocarbons to entice investment. With $100/barrel oil, predictions that oil prices will remain over $80-$90 for much of the decade, and Alaska's

existing infrastructure to transport hydrocarbons, the viability of TAPS is clearly not solely economic.

The State of Alaska is also doing as much as we can to make oil production on state lands as globally competitive as possible. The Governor's major tax reform legislation will do much to get us to such a position.

For these reasons, the long-term viability of TAPS will primarily be determined by federal politics and policies. The federal government's antidevelopment policies throughout the North Slope chill the investment climate and discourage companies from exploring and producing in Alaska. When Shell cannot drill one exploratory well in the OCS after five years of spending billions of dollars for leases and permits, and ConocoPhillips cannot get a permit, again after five years, to build a bridge across the Colville River to access CD-5 in the NPR-A, it is the federal government that is denying access to abundant hydrocarbon resources and, ultimately, jeopardizing the long-term viability of TAPS.

These are just a few examples of many where federal policies have focused on discouraging—not encouraging—the billions of dollars of investment needed to increase North Slope oil production. If we had a federal government that welcomed exploration and development and permitted operations in a timely and predictable manner, the economics of filling TAPS would take care of itself.

The Federal Government Should Embrace the State of Alaska's Goal of Increasing TAPS Throughput to 1 Million Barrels Per Day as a National Policy

Our preferred approach is to have a federal government that joins us in the mutually beneficial goal of responsible resource development in Alaska.

As noted above on page 12, on March 30, 2011, Governor Parnell announced an ambitious but critical goal for Alaska and the country to increase the Trans Alaska Pipeline System (TAPS) throughput to one million barrels of oil production per day within a decade. On the same day, President Obama announced his goal of reducing oil imports by one third by 2025. The State of Alaska fully endorses President Obama's goal. Indeed, just this past Monday, Governor Parnell reached out to President Obama expressing Alaska's support for this important

goal while at the same time asking the President to support the state's goal to increase TAPS throughput. More specifically, Governor Parnell respectfully requested that the President direct his Secretaries of Interior and Energy, as well as the EPA Administrator, to work with Alaska on refining a plan that will enable Alaska and the rest of the country to achieve the goal established by the President.

The State of Alaska would also welcome Congress's involvement in ensuring that the federal government supports Alaska's goal of one million barrels a day through TAPS within a decade. By working together to champion such a goal, as well as the President's goal of reducing oil imports by one third, we can demonstrate how state and federal governments can come together to curb our dependence on foreign oil and create a brighter, more secure future for Americans.