

TFANG

Speaker' s Task Force For Affordable Natural Gas

[Home](#)[Mission](#)[News](#)[Meetings](#)[Natural Gas Facts](#)[Reports](#)[Photos](#)[Findings](#)[Contacts](#)

7 FIELD MEETING OF THE SPEAKER'S TASK FORCE FOR AFFORDABLE NATURAL GAS

Hobbs, New Mexico
August 18, 2003

13 PRESENTATIONS

14 Volume 1 of 2

4 PRESENTATIONS

5 PANEL I - Impacts/Economic Damage

6 Bob Gallagher, New Mexico Oil & Gas Asso.13

7 Robert Caudle, Lea Co. Electric Cooperative17

8 Steve McCutcheon, Mississippi Potash Co.21

9 Tim Theisner, Dairy Farmers of America24

10

11 PANEL II - Utilization/Impacts

12 Pat Lyons, New Mexico Public Lands Commissioner ..31

13 Steve Massey, Eddy County Manager35

14 David Schorlermer, Key Energy Services37

15 Dr. Judy Armstrong, Provost, ENMU42

16

17 PANEL III - Impediments to Production

18 Payton Yates, Yates Petroleum54

19 Richard Fraley, Burlington Resources59

20 Claudia Vigil-Muniz, Jicarilla Apache Nation64

21 Lewis Derrick, Rancher69

1 PROCEEDINGS

2 MR. GALLAGHER: I welcome you to Hobbs

3 and I would like to welcome you to our energy hearing.

4 But first, before we get started, I would like to ask

5 the Boy Scout Troop from Lovington 393 to post our

6 colors. They will be followed by our national anthem by

7 Airman First Class Reed Staton. We will have the

8 national anthem and then we will have an opening prayer.

9 If you would, posting of our colors.

10 (Posting of colors and anthem)

11 Would you step forward please and present

12 the flags to the Boy Scouts as well as the others. We

13 have the flag there for the two of you to present.

14 MR. PEARCE: Always in our office we look

15 for opportunities to recognize the participation of our

16 young people because it is absolutely those youngsters

17 who are learning leadership skills that will be running

18 the nation as we ease into retirement. So, we thank you

19 for your participation today and we would like to

20 present each one of you with a flag that has been raised

21 over the Capitol. So, if you will wait just a second,

22 Congresswoman Wilson and I will present these.

23 Now we'll post these pictures on our website next week

24 too.

25 All right. Thank you now.

1 MR. GALLAGHER: We thank you for
2 indulging us that. We think it's important to recognize
3 those people. Once again, welcome to Hobbs, welcome to
4 this summit. We welcome Congresswoman Wilson to our
5 presence and we appreciate her and her staff being here.
6 And now I present you to Congressman Steve Pearce.

7 MR. PEARCE: I now call to order this
8 field meeting of the Speaker's Task Force for Affordable
9 Natural Gas.

10 While I am making my opening comments, if
11 we can have the first panel to come on up and begin to
12 take your seats. We are - We've got a very tight
13 schedule. We are going to put all of this into two
14 hours. We have the display monitors to let the speakers
15 know. You get the green light when you have your full
16 time. As you get inside one minute, you will have a
17 yellow light. And the red light, if you have not
18 stopped speaking, you'll vaporize. So, we do, we need
19 to stay fairly well on time. All of your texts have
20 been submitted and they will be included in the full
21 proceedings of the hearings as if they were spoken, even
22 if you don't get through them. So don't worry. The
23 real work kind of takes place in Washington as we
24 dissect everything that we have gotten.

25 We as a nation have an abundance of

1 natural gas waiting to be developed and delivered to the

2 American people. The problem is not in the abundance of

3 the resource. The U.S. has enough supply of natural gas

4 in its non-park, non-wilderness public lands and

5 offshore to supply energy to one hundred million homes

6 for 157 years. So what's the problem? Finding the

7 answer is the mission of this task force that the

8 Speaker created. I want to thank our host for

9 accommodating us here for this meeting, the

10 participants, and the public for attending.

11 The Speaker of the House, Dennis Hastert

12 has assembled this task force to report on three main

13 areas of inquiry - the cause of today's natural gas

14 shortage, the impact of natural gas prices on the

15 American economy, and short- and long-term ideas to

16 encourage a stable supply of natural gas to ease prices.

17 In furtherance of that mission, the Speaker has

18 appointed members of Congress from across the country to

19 immediately begin fact-finding sessions throughout the

20 month of August. Even as we meet today in this formal

21 setting, other members of the task force are holding

22 informal meetings in their Districts on this critical

23 issue. When the task force concludes here today, other

24 public meetings will be held in other public places in

25 the country, chaired by members of the task force from

1 those locales. By dividing the workload in this manner,
2 we can accomplish our work and submit a findings report
3 to our Speaker by the deadline of September 30th. Our
4 work is urgent.

5 By the authority given to me by the
6 Speaker, I convene this meeting and look forward to
7 hearing from the participants as they make their
8 presentations.

9 Through numerous hearings held in
10 Washington, D.C. by the House Resources Committee and
11 the House Energy and Commerce Committee, the answer to
12 the Speaker's first inquiry, what are the causes of
13 today's natural gas shortage, are clear. The federal
14 government has encouraged the use of natural gas by all
15 sectors of the economy, from industries to families, all
16 the while limiting more and more areas available to
17 explore for natural gas. Federal Reserve Board Chairman
18 Alan Greenspan described it as conflicting federal
19 policies. It brings to mind third world countries run
20 by tyrannical governments holding up humanitarian
21 supplies of food from around the world while the people
22 starve to death.

23 We as a nation have an abundance of
24 natural gas waiting to be developed and delivered to the

25 American people. The problem is not in the abundance of
1 the resource. The problem is the federal government
2 whose bureaucratic red tape is strangling our people and
3 our economy by preventing the reasonable development of
4 natural gas on non-park, non-wilderness lands owned by
5 the federal government. If such actions were taken by
6 any private company, the federal government might very
7 well prosecute them for market manipulation, but for
8 years the federal government has done it with impunity.
9 We find ourselves in this position now because the
10 Federal Government has been just as aggressive in
11 pushing the use of natural gas as it has been in
12 preventing the development of natural gas.
13 As I said earlier, the U.S. has enough
14 supply of natural gas in its non-park, non-wilderness
15 lands and offshore to supply energy to one hundred
16 million homes for 157 years. It is time to break that
17 natural gas out of the Federal Government's stockade and
18 deliver it to the people.
19 There may be other reasons as well. The
20 goal of this task force is to find out.
21 In yesterday's Washington Post, the
22 business section had an article about the massive power
23 grid failure in the northeast. The article also
24 mentioned the natural gas problem. The article said the
25 breadth of last weeks power outage was remarkable. More

1 than one hundred power plants, including 22 nuclear
2 reactors in the United States and Canada, shut down in a
3 lightning cascade that took just nine seconds and
4 plunged millions into darkness over ninety-three hundred
5 square miles from New England to Michigan.

6 But this is only a piece of the problem.

7 The Interstate Natural Gas Association of America has
8 estimated that up to seventy billion in new interstate
9 pipeline investments will be required over the next
10 twelve to fifteen years to meet demand. Our country is
11 groaning and collapsing under the strain of years of
12 failed attempts to enact a reasoned, well-balanced
13 energy policy. This month it is the electricity grid
14 that failed. Will it be natural gas systems this
15 winter? As the article I just quoted said, when the
16 nation wakes up, it will find a cupboard bare and the
17 needs mighty. When that day arrives, what will those
18 that opposed the sane development of our resources say?
19 I guarantee it won't be "I'm sorry" or "I was wrong".
20 The fingerpointing will go on, blaming everyone but
21 themselves. When that day comes, I want you to ask them
22 a question: What have you done to help solve this
23 crisis? The silence will be deafening.
24 The second inquiry is the impact of

25 natural gas prices on the American economy. That is why

9

1 many of you have been asked to present your views today
2 at this meeting. The Speaker and members of this task
3 force want to hear from people all across America,
4 people who have to deal with ever-increasing government
5 regulations, not some inside the beltway reasoning that
6 neither makes sense or solves the problem. We certainly
7 will not find the answer from some inside the beltway
8 group suffering from Potomac fever. We are particularly
9 concerned with short term solutions. Too many people
10 want this task force to focus on the long term. The
11 energy bill does an adequate job of dealing with the
12 long term, but the natural gas prices demand attention
13 now in the short term.
14 Lastly, after we conclude our work, we
15 will report our findings to the Speaker so that Congress
16 can address the issues. This field meeting of the
17 Speaker's Task Force for Affordable Natural Gas is
18 scheduled to last two hours. Presenters have been
19 selected from across sections of New Mexico to aid the
20 task force in the fact-finding mission. Unfortunately,
21 due to the task force rules and the time constraints, we

22 will not be able to provide an opportunity for others to
23 present their views today. However, I encourage all who
24 want to be heard on this issue to submit your statements
25 in writing to be made a part of the record of the task

10

1 force. Additionally, I encourage any interested person
2 to check the web pages, check the task force's web page
3 periodically for updates. The web page address is:
4 Energy commerce, dot house, dot gov, forward slash,
5 natural gas task force, and that's all one word, of
6 course. Please do not use the "www". The e-mail
7 address is: Natural gas task force at mail, dot house,
8 dot gov. As always, you can contact my office for any
9 assistance you may need.
10 So let's begin with the - Let's let
11 Congresswoman Wilson have her opening statement and then
12 we will begin with the first panel.
13 MRS. WILSON: Thank you, Mr. Chairman.
14 Thank you very much for hosting this today. It is a
15 real pleasure to be here and to listen and learn some
16 things about the problems facing the natural gas
17 industry and its impact on our economy.
18 We have record low supplies of reserves

19 of natural gas and usually what happens in the summers,
20 we build up those reserves and then they are drawn down
21 in the winter as people heat their homes. This doesn't
22 bode well if we have a cold winter. It doesn't bode
23 well for the price of natural gas. Those natural gas
24 prices not only affect homeowners - about a quarter of
25 our natural gas in this country goes to heat homes - but

11

1 it also affects companies and businesses who are trying
2 to grow and create jobs.
3 New Mexico is one of the top producers of
4 natural gas in the country. We supply natural gas to
5 the rest of the country. We also happen to live in the
6 most beautiful state in the nation. It is possible to
7 explore for natural gas and protect the land that we
8 love. And I think New Mexico can show the rest of the
9 nation how we do this and how it is possible to do this
10 and to expand our exploration for natural gas because we
11 have a hundred years of supply of natural gas. The
12 problem is, we can't get at it. Most of it is in the
13 Rocky Mountain west.
14 Natural gas affects our lives and
15 certainly we heat our homes with it, but it also affects

16 industry and jobs. Agriculture depends on it. Ninety
17 percent of the cost of creating fertilizer is the cost
18 of natural gas. So we've already seen some fertilizer
19 companies in America close because the cost of natural
20 gas has gone up.
21 But it's not only things like that. Now
22 when you put your kids to bed in their flame-retardant
23 pajamas, when you take vitamins, when you use a computer
24 at work, when you eat food that has preservatives in it,
25 all of those things are brought to us, in part, by

12

1 natural gas. America depends on natural gas as an
2 inexpensive heating fuel, not only for our electricity
3 plants and to heat our homes and run our stoves, but
4 also for a lot of our products that we depend on and we
5 need to continue to have that supply of those things
6 that are reasonably priced because if a company that is
7 making those pj's or those computers or those food
8 additives has an increase in the cost of the natural gas
9 to make them, well, that is going to slow down their
10 growth and affect the jobs that they are able to create.
11 Energy costs affect growth and jobs.
12 Energy prices for natural gas are likely to go up

13 because we are limiting the supply. We're limiting it
14 through unreasonable federal regulations and a lack of
15 access to non-park federal lands. I think we need to
16 address that problem, both short term and long term, so
17 that we can provide for our energy future. I look
18 forward to hearing from our witnesses today. Thank you.

19 MR. PEARCE: We'll begin with our first
20 panel. This panel is discussing the impacts and
21 economic damage of the high natural gas prices. We have
22 panelists Bob Gallagher, President of New Mexico Oil and
23 Gas Association; Robert Caudle, Director of the Lee
24 County Electric Cooperative; Steve McCutcheon,
25 Mississippi Potash; and Tim Theisner, Dairy Farmers of

13

1 America. We will begin and please watch the time, the
2 red timer there in front of you. So with that, let's
3 make our statements.

4 BOB GALLAGHER: Congressman Pearce and
5 Congresswoman Wilson, Congressional staff: I appreciate
6 very much the opportunity to visit with you today. My
7 name is Bob Gallagher. I am the President of the New
8 Mexico Oil and Gas Association, which is celebrating its
9 75th year of helping to insure a pro-business and

10 pro-industry attitude on behalf of our elected officials
11 and regulatory agencies. Our association represents 300
12 companies who produce, explore, gather, market,
13 transport. We find, process, and service oil and gas in
14 New Mexico. Our members produce 99 percent of all the
15 oil and gas that is produced in New Mexico.
16 Our state has grown to be the second
17 largest producer of natural gas and the fifth largest
18 producer of crude oil in the lower 48 states. But more
19 importantly to this hearing, New Mexico has the second
20 largest known reserves of natural gas, the fourth
21 largest known reserves of crude oil. I say more
22 important because the future of our energy dependency
23 for our habit in this country depends on states such as
24 New Mexico.
25 Every day New Mexico produces

14

1 approximately ten percent of the natural gas that our
2 country consumes on a daily basis. To add to the
3 importance of this hearing today, 60 percent of our
4 production is on federal lands. The answer to
5 affordable natural gas is easy - available natural gas
6 makes natural gas affordable. In three words, I can

7 describe to this committee how to make natural gas
8 affordable and available. Those three words are access,
9 access, and access. If our industry does not have more
10 access to federal lands and waters, our country does not
11 have affordable natural gas. I truly believe it is that
12 simple.

13 Let me very quickly talk about five
14 examples of lack of access of availability right here in
15 New Mexico - the lesser prairie chicken, the sand dune
16 lizard, the snail, some sort of cricket that I can't
17 pronounce, and aplomado falcon - those are all species
18 that are threatened to be placed on or are now on the
19 endangered species list. Let me assure you that if the
20 lesser prairie chicken is placed on the endangered
21 species list by environmental obstructionist groups, New
22 Mexico stands to lose a quarter of a billion dollars of
23 revenue each and every year because access will be
24 denied to them.

25 Secondly, in the Farmington area, twelve

15

1 to thirteen months delay in the processing of an
2 application permit to drill if you are on Forest Service
3 land or if the Fish and Wildlife Service is involved.

4 Otero Lake in southwest New Mexico, it will potentially
5 be one the largest new natural gas reserves in the
6 western United States, but the Resource Management Plan
7 has been a work in progress for the past five years and
8 is yet to be completed, which does not allow for the
9 development to progress. The IDLA, which is a judicial
10 arm of the Interior Department, spent the last five
11 years considering a case involving producers in
12 southeastern New Mexico and the potash industry, during
13 which time hundreds of wells were held up and not
14 drilled. The BLM office in Carlsbad is a prime example
15 of what's wrong with the BLM system. When resource
16 specialists can leave their office and shut down the
17 full project without any approve - without anybody above
18 them approving their actions, something is wrong with
19 the system.

20 The crux of the matter is that loss of
21 access means loss of production. That means loss of
22 income to the producer, to cities, counties, and state
23 government and the federal government.

24 In New Mexico, the oil and gas industry
25 last year gave direct revenue of 1.7 billion dollars to

1 the State of New Mexico, 23 percent entire revenue of
2 the general fund. And there were ten billion dollars of
3 market oil and gas production.

4 Another way to look at lost production is
5 to consider the economic revenue stream produced by a
6 new well in New Mexico. That economic stream is one
7 million seventy-five thousand dollars for each new well.

8 If ten percent of the applications for a well are held
9 up or not processed, that is one hundred wells that
10 won't be drilled or produced and revenue in excess of
11 one hundred million dollars that is lost because of poor
12 management and cumbersome duplicative regulations. We
13 cannot afford to go down this road.

14 Very quickly, some things that could be
15 done to make affordable natural gas. A 45-day permit
16 processing. If, after 45 days, the permit has not been
17 denied with reason, it ought to be approved. A 45-day
18 permit process would go a long way toward solving the
19 problems. The combining of several federal agencies
20 permitting processing offices to relieve duplication and
21 timely delays in processing. The ability of the BLM and
22 other federal agencies to concentrate on their workload
23 and not on frivolous, obstructionist litigation that now
24 seems to be an every day occurrence. And once too often
25 forgotten is research and development. I would

1 encourage this panel to support House Resolution 6 and
2 unconventional natural gas and other petroleum resources
3 that would provide research and development to allow
4 natural gas to continue to be available and affordable.
5 Saying that with the red light on, Mr.
6 Chairman, Madam Congresswoman, the slogan of the New
7 Mexico Oil and Gas Association is "New Mexico Oil and,
8 Gas, insuring tomorrow's future today". That will not
9 be possible without available, affordable natural gas.
10 I thank you for your presence here this morning, as
11 well as your work on behalf of all citizens of New
12 Mexico each and every day. Thank you very much.
13 MR. CAUDLE: Mr. Chairman, Ms. Wilson, my
14 name is Robert Caudle. I am glad to be here at the
15 request of my Congressman, Mr. Pearce.
16 I have been in the oil and gas business
17 for at least --
18 MR. PEARCE: Scoot the mike over where
19 they can hear you in the back.
20 MR. CAUDLE: - for at least 25 years as an
21 independent producer. I am also proud to say I am a
22 Director of Lea County Electric and also I am on a
23 national cooperative board of directors.
24 We have been asked to answer three
25 questions. First of all, the causes of the current

18

1 natural gas crisis. Everybody has an opinion, but the
2 bottom line is that there is an imbalance between supply
3 and demand. That is the crux of the matter. I have
4 lived through both situations - high prices, low prices.
5 The natural gas business has always been driven by
6 normal business cycles. If prices are high, supply
7 increases. The price goes down, supply decreases.
8 Capital is invested.
9 I recently participated in a recompletion
10 attempt in an old well that was completed and it was
11 only because the gas price was five dollars. If it had
12 been two dollars, neither myself nor any other partner
13 would have agreed to it. It is just a fact.
14 On another issue is the Congress has
15 asked Chairman Greenspan if he had any answers about the
16 natural gas crisis and he said no, he doesn't have any
17 answers.
18 We can remember the 70's when President
19 Carter encouraged a Fuel Use Act, another misguided
20 effort by government. There have been other legislation
21 to direct the use of natural gas. Most often there has
22 been some unintended consequence.

23 What is different between past crises and
24 today's crisis is that natural gas has become the fuel
25 of choice. It is viewed as very environmentally benign

19

1 relative to coal, oil, and other conventional choices.
2 Government policies are acting as a deterrent to the use
3 of those other fuels. Consequently, government policy
4 increases demand for natural gas. I am going to come
5 back to this point in just a minute, but we have to
6 understand all of these fuels.
7 From my perspective there is little or no
8 improvement in the way that government constrains supply
9 by restricting exploration on federally-owned lands and
10 by its practice of making the permits for this process
11 very slow and very painful. The bottom line is
12 government itself increases the demand for natural
13 gas, especially for electric generation, which is the
14 major driver in increased natural gas demand. At the
15 same time government is doing little to make it easier
16 for producers to increase supply. Is it any wonder we
17 have an imbalance?
18 We all know about the impact on the
19 economy. Certainly, when gas prices go down, the local

20 economy suffers. When they are too volatile, the impact
21 on consumers and especially farmers, it will be very
22 difficult. What we need to do is reduce the volatility.
23 I would caution against any quick fix approaches.
24 I want to jump forward here to five
25 recommendations that I have. First of all, increase

20

1 supply by facilitating development on federal lands.
2 Everybody is in favor of a clean environment. I would
3 never suggest that we compromise a legacy that we will
4 leave to our grandchildren; however, it is time that we
5 as a nation move away from ideology and politics toward
6 making decisions based upon the facts of the local
7 situation.
8 We need to remove - Secondly, we need to
9 remove or reduce the disincentives to the use of coal,
10 oil, and nuclear generation of electricity. Again, the
11 largest driver on the demand for natural gas is the
12 electric generation sector. We have to look at all of
13 these different fuels to get - nothing happens in a
14 vacuum. If we artificially reduce the ability of
15 utilities to use coal and nuclear, we are going to
16 continue to see rising demand and upward pricing

17 pressure on natural gas. On nuclear energy use and
18 increase there needs to be significant changes in the
19 federal policy as recommended by Senator Domenici. I
20 caution against using imports to solve America's energy
21 problems. I don't think foreign imports is a wise
22 policy, at least the dependence on them.
23 My final recommendation is that we do no
24 harm. We don't rush to quick fix solutions. We have
25 seen adverse results of that in the past. I also would

21

1 make the same comment about the Energy Bill and other
2 issues going on.

3 I thank you for the time. I appreciate
4 you all being here and I'm sorry I ran over a little
5 bit.

6 MR. PEARCE: Thank you very much.

7 MR. McCUTCHEON: I am Steve McCutcheon
8 with Mississippi Potash Company. Mississippi Potash
9 mines potassium between Carlsbad and Artesia. The
10 reason that I'm here today to present is that our
11 company, as Representative Wilson mentioned, in the
12 fertilizer industry is now in Chapter Eleven
13 reorganization due to volatility in natural gas prices.

14 Mississippi Chemical is a stable company. It is 53
15 years old, with stellar accounting practices, I might
16 add, in today's environment, and they have operated the
17 Mississippi Potash Mines since 1974.
18 Potash is an essential plant nutrient.
19 It's mined from 800 to 1,700 feet below the surface. If
20 a consumer buys a bag of fertilizer, there are three
21 numbers on the bag. Potash is the last number -
22 nitrogen, phosphorous, and potassium is the last one.
23 Potash is a generic term for fertilizer containing
24 potassium. It is also used in several industrial
25 applications.

22

1 At Mississippi Potash we make two types
2 of product. One is a red product and the other is a
3 white product. The white product or a hot leach
4 crystallization product is very, very dependent on
5 natural gas. The red product uses another process that
6 is not as dependent.
7 In fiscal year 2000 to 2001, our
8 company's costs in southeastern New Mexico of natural
9 gas and electricity together, which were tied, increased
10 7.7 million dollars with no change in the tons of potash

11 mined or produced. The price of potash has been in
12 decline for three years due to a weak agricultural
13 sector so we had no place to pass on those costs to our
14 customers and maintain any kind of sales volume.
15 In natural - In fiscal year 2002, natural
16 gas again had a devastating effect. Prices escalated
17 from summer through winter, as would be expected, but
18 then came March, 2003. During the month of March,
19 natural gas prices rose 95 percent from their previous
20 six month average. What that meant is that we took, we
21 stopped making one product because the cost of gas was
22 too high and we took a lot of lower-cost market
23 adjustments during those months in our product. We
24 charged off large numbers of dollars.
25 In May of 2003 we filed for

23

1 reorganization under Chapter 11. In the third week of
2 June 2003 we furloughed 378 workers in the potash
3 segment and 132 in the nitrogen segment. That is on the
4 heels of downsizing of over 150 jobs prior to that. At
5 present, 220 workers have come back to work in potash,
6 but our East Plant, which is the natural gas, the plant
7 that is heavily dependent on natural gas, remains down

8 with no definite time for start-up announced. About 158
9 workers from this area remain furloughed as we speak.
10 The workers in nitrogen, the 132 I mentioned, have not
11 been called back to work and no starting date has been
12 announced there.
13 Natural gas is the main input for
14 ammonia, which is the main input for nitrogen
15 fertilizers. As the price of natural gas escalates, the
16 price of nitrogen fertilizer goes right with it. And
17 the farm economy has been a problem because the farmers
18 are trying to decide whether they are going to buy
19 diesel to get into the fields to work their crops or
20 they are going to buy fertilizer. Well, what's
21 happening is fertilizing rates are down and production
22 rates have been down.
23 World grain stocks remain in a sharp
24 decline. In 2001, world stores were at 509 million
25 metric tons. In 2002, they fell to 412 million metric

24

1 tons. The latest estimates by USDA pin the 2003 ending
2 stores at 327 million metric tons.
3 Encyclopedia Britannica reports that 2002
4 saw mounting concerns over global food supplies and

5 harvest declines in many areas of the world. U.S.
6 supplies - U.S. growth is projected to actually slightly
7 increase. Chuck Dunn, our present CEO of Mississippi
8 Chemical, recently said in an interview on CBS News that
9 unless the natural gas prices are controlled, there will
10 not be any ammonia capacity in the United States in two
11 years. When this happens, we will be dependent on
12 Canada for potash and third world countries for nitrogen
13 or for ammonia where natural gas is 50 cents an mmbtu as
14 opposed to what Allen Greenspan projected in June at
15 \$7.50 mmbtu. As an industry, we very much appreciate
16 your concern in letting us come and voice that today.
17 Our food supply depends on it.

18 MR. THEISNER: Congressman Pearce, my
19 name is Tim Theisner and I appreciate being invited here
20 in my position at Dairy Farmers of America as Director
21 of Operations. I have given you a U.S. map. Hopefully
22 that's in front of you. That basically --
23 For the first thing, I want to talk about
24 who DFA is. When we say Dairy Farmers of America, that
25 is more than dairy producers. As you can see on the

25

1 map, we embody also name brands as Frappuccino, Borden,

2 Frito Lay, National Dairy Holdings, Golden Cheese. The
3 point I wanted to make was when gas prices, which are
4 integral to our operations, fluctuate or basically rise
5 up, it affects not only the dairy producers, it affects
6 our manufacturing base, but it also gets rolled down
7 into the final user, which is a consumer or, in this
8 case, all these different companies that you see in
9 front of you.

10 What DFA is, we are a composite of one
11 hundred manufacturing plants, as you can see spread out
12 across the nation. These facilities are highly
13 dependent on gas as a primary energy source. As a
14 matter of fact - and this is an average - but it is
15 probably around eighty to a hundred million dollars we
16 spend on gas yearly and that is just for these
17 facilities.

18 Now let me give a better feel for that.

19 That is just DFA and that is just these one hundred
20 facilities in dairy. Now you also got to look at the
21 Kraft and the Nestles, the CDA, California Dairy, UDA,
22 and a host of other dairy manufacturing. We are not a
23 small portion, but we are not the biggest fish out
24 there. So you take that one hundred million and you add
25 all of these other companies, and we are looking at a

1 very large, large base of cost and when we have
2 fluctuation or volatility, as well as higher increases,
3 it basically affects our bottom line. When it affects
4 the bottom line of manufacturing, that just rolls both
5 ways. It's rolled to the dairy producer, who we have
6 several in this county obviously, and it gets rolled
7 down into the final consumer.

8 I also put - if you have those in front
9 of you, if you scroll through to the fifth page - I have
10 put a graph there that shows some of the volatility over
11 the last couple of years and you can see we have ranges
12 in costs from two to three dollars all the way up to
13 twelve, up to eighteen dollars. And when one facility -
14 and I have taken a cross-sectional - the first page out
15 of one facility I took a cross-sectional across the U.S.
16 from Tennessee to Indiana to California, even our
17 Lovington facility, to give a feel for what the price
18 fluctuation does to an individual plant. On average it
19 costs about five or six hundred thousand dollars per
20 facility on just a three-deck variability. Now that
21 doesn't sound like a lot, but you charge that out over
22 one hundred facilities and then you charge that out over
23 the UDA's, the Kraft, the Nestles, we start getting into
24 some very large numbers.

25 So basically that's the main item I want

1 to bring to the table today. I have a minute and a half

2 left, but if I can say that, that will be enough.

3 MR. PEARCE: Thank you very.

4 I can tell the time restraints are a

5 little oppressing and again, be reassured that a full

6 text will be in the report that we all work from. And,

7 we will go to questions for this panel. Congresswoman

8 Wilson would you like to ask questions or you want me to

9 lead off with questions?

10 MRS. WILSON: You can.

11 MR. PEARCE: Okay. Let me ask a couple

12 and then we'll go back.

13 Mr. Caudle, you mentioned the volatility

14 in the gas market. How bad is the volatility? What

15 does that translate into as we consider the cost of

16 electricity for consumers?

17 MR. CAUDLE: Congressman Pearce, one of

18 the immediate effects is, especially in agriculture,

19 they may have gone into an irrigation season

20 anticipating a certain gas price and making their plans,

21 and then the prices go up rapidly, very volatile, and

22 they are stuck. They have to go ahead and do it.

23 Additionally, it affects consumers. It can certainly,

24 in periods of high demand, it greatly increases the cost
25 of electricity. Those are, you know, two effects of

28

1 volatile prices.

2 MRS. WILSON: Steve, I was fascinated by
3 your story, the story of your company. At what point
4 does the price of natural gas have to come back down to
5 for you to rehire all of those folks that are
6 furloughed? Where is the tipping point for you?

7 MR. McCUTCHEON: Well, I am not really
8 terribly familiar with nitrogen, but around the four
9 dollar mark is where the price of nitrogen is right now
10 and the price of natural gas needs to be to have those
11 two markets meet.

12 MRS. WILSON: Now does it have to be at
13 that point for a particular period of time? Is it the
14 volatility or the price or both?

15 MR. McCUTCHEON: It is both. It's both
16 the volatility and the price. You know, at times we
17 make fertilizer for fall and spring seasons. Most
18 nitrogen is put on in the spring season so we - Because
19 of warehouse capacity, we make that through the winter
20 and prices escalate through the winter. We've hedged

21 and we haven't hedged. We've done all that to try to
22 hold that down, but we start becoming profitable under
23 four dollars. We start - That is where we break even on
24 nitrogen.

25 MRS. WILSON: Thank you.

29

1 MR. PEARCE: Steve, I was again
2 interested in your testimony. I grew up on a small,
3 five acre farm just south of Hobbs and my father always
4 used manure to really fertilize. I just concluded a
5 very vigorous fourteen-day move through my district -
6 again, I have a district I can't see across;
7 Congresswoman Wilson, she is the able to see the other
8 side of her district - and there are people that claim
9 that the organic alternative of manure should be used
10 instead of the potash. When I mention the jobs that we
11 potentially lose, when I mention that natural gas is
12 used in that production, then the rebuttal is that we
13 should be using the organic alternative and, thinking
14 about my father, what, on a large scale, what are the
15 effects?

16 MR. McCUTCHEON: Okay. Sorry, I had
17 something on that and I left it out of my presentation,

18 but there is a lot of people thinking that way. There
19 is a lot - You're going to hear a lot about that. And
20 the way that converts is, if you, to apply 200 pounds of
21 nitrogen fertilizer to an acre, the equivalent in manure
22 is 24 inches deep. So it is absolutely unmanageable to
23 get the kind of nitrogen it takes to plant what we
24 require in our modern agricultural techniques. I mean,
25 you can't put two feet of manure to get the same impact

1 as 200 pounds of --

2 MR. PEARCE: We do that in Washington.

3 MR. McCUTCHEON: The other problem is -

4 You know, there are a lot of issues with manure and the
5 other things it contains. Nitrogen is made from natural
6 gas; it's pure.

7 MR. PEARCE: We've got, I know, many
8 questions that we would like to submit to you, but
9 again, the time constraints, we are going to move to the
10 second panel, but I am going to submit questions to each
11 one of you if you wouldn't mind following up. I know I
12 had at least two questions for you, Bob, but the
13 timekeeper says my red light's on now so --

14 MR. GALLAGHER: I appreciate the
15 timekeeper.

16 MR. PEARCE: Our next panel will be Pat
17 Lyons, New Mexico Public Lands Commissioner; Steve
18 Massey; Eddy County Manager; David Schorlermer, Key

19 Energy Services, and Dr. Judy Armstrong, Provost at
20 Eastern New Mexico University, Roswell. This panel will
21 talk about the utilization impact of the price of
22 natural gas.

23 Which one of you is ready? I don't know
24 if they have that other microphone there. We have been
25 getting some feedback. We'll try them both, but it

1 seems to be working well on that.

2 MR. LYONS: Okay. Good morning,
3 Congressman Wilson, Pearce, and thank you for having us
4 here to testify from the State Land Office on affordable
5 natural gas, the opportunity to tell you about what is
6 happening on State trust lands in New Mexico.

7 Can you pick me up? Good sound?

8 Just to give a little background
9 information, more than a hundred years ago, in
10 accordance with the Ferguson Act of 1898 and later the
11 New Mexico Enabling Act of 1910, our state founding
12 fathers set aside land developed for a public school
13 system along with other vital institutions. The
14 beneficiaries of these are K through 12, common schools,
15 higher education, Carrie Tingley Hospital, teaching
16 hospitals, Miner's Colfax Hospital, School for the Deaf,
17 and also the School for Visually Handicapped in
18 Alamogordo, the prison systems of New Mexico, public
19 buildings, the Rio Grande improvement, State Parks
20 Commission, and water reservoirs in the state.

21 Moreover, the Ferguson Act and the

22 Enabling Act established a Land Grant Permit Fund which
23 transfers about nine million acres of state surface land
24 and thirteen million acres of oil, gas, and mineral in
25 New Mexico to be held in trust to support the

1 beneficiaries mentioned above.

2 The land we hold in trust today is rich
3 in oil and natural gas reserves and provides hundreds of
4 millions of dollars annually to our state economy. More
5 than ninety percent of State Land Office revenue is
6 generated by oil and gas activities on state lands,
7 state trust lands. Land grant permanent funds consist
8 of income from oil, gas, and mineral royalties and
9 proceeds from land sales. In fact, 92 percent of the
10 endowment fund's income is generated by the oil and gas
11 industry. The market value of the fund as of June 30th,
12 this last June 30th, was 6.8 billion dollars. New
13 Mexico public schools, universities, and hospitals,
14 other beneficiaries are each appropriated a percentage
15 of the interest earned on the land grant permanent fund.
16 The public schools K through twelve receive the majority
17 of that. About 83 percent of the money for public
18 schools comes out of the State Land Office. In fiscal
19 year 2003, 333 million was attributed to the
20 beneficiaries. Public schools received 276 million of
21 this. Contributions by the oil and natural gas industry
22 are critical to the livelihood of every New Mexican.

23 Natural gas was first discovered in Eddy
24 County in 1908. The first substantial discovery was
25 made in 1921 in the San Juan Basin, San Juan County, in

33

1 the far northwestern part of the state. The Land Office
2 received its first royalty payment in 1924. By the
3 1930's, the use of natural gas as a fuel began to
4 advance rapidly in the United States and New Mexico
5 became a significant producer of natural gas from both
6 the northwest San Juan Basin and from the southeast's
7 Permian Basin.
8 New Mexico has produced 56 trillion cubic
9 feet of natural gas since production began in the
10 1920's. It is the third largest producer of natural gas
11 in the country. Last year alone 302 gas wells were
12 drilled on state trust lands. The availability of state
13 trust lands continues to play a significant role in New
14 Mexico gas, oil industries. Typically, one third of the
15 state's oil and one sixth of the state's natural gas
16 being produced is on state trust lands.
17 Trust revenue from oil and gas, both from
18 these sale bonuses and royalties, reflect the
19 volatilities of the markets in world events. Natural

20 gas prices have increased over the past years. The
21 early indications of significant decrease in
22 conventional gas production are coming in.
23 Historically revenue from crude oil was
24 the largest component of rural revenue in the State Land
25 Office. However, in the last few years, natural gas has

34

1 become an increasingly larger producer of revenue stream
2 and currently accounts for about 60 percent of the State
3 Land Office royalty. Coalbed methane is the largest
4 source of trust royalty gas income. In 2002, nearly 247
5 million cubic feet or 18 percent of the state total
6 production of natural gas was produced on state trust
7 land in the two areas talked about - northwestern and
8 now in the southeastern New Mexico. Hence, the Land
9 Grant Permanent Fund earned about 72 million dollars of
10 natural gas royalties last year. In the first six
11 months of 2003, the State Land Grant Permit Fund yielded
12 about 50.6 million dollars in natural gas royalties.
13 In the past several years, trends have
14 indicated that natural gas production in New Mexico has
15 been on an incline in New Mexico and oil production has
16 been on a decline. In 2002, natural gas production in

17 the San Juan and Permian Basin was more than oil
18 production. As our natural gas demands for energy
19 continues to increase, the need for oil and gas
20 producers must be recognized. As Commissioner of Public
21 Lands it is my job to determine the highest and best use
22 of state trust land and to maximize revenues for the
23 beneficiaries, mainly our schools. I intend to dedicate
24 the remainder of my term to maximizing oil and gas
25 opportunities on state trust lands in a clean,

35

1 environmental way.
2 Oil and natural gas and minerals are the
3 sole revenue-generating source of money for the Land
4 Grant Permanent Fund. New Mexico depends on oil and gas
5 to fund our public schools and universities and special
6 projects. There is no substitute for the contribution
7 of oil and natural gas industries to New Mexico's
8 economic horizon.
9 With that I will stand for questions.
10 MR. MASSEY: Thank you for having us here
11 this morning. I am Steve Massey. I am the County
12 Manager in Eddy County. We are the third largest oil
13 producing county in the state of New Mexico, behind Lea

14 County and San Juan County. And just to give you an
15 idea of how significant that is to our economy, over
16 19,600 wells have been drilled at some point in time for
17 oil and gas over the years. That counts those that have
18 been plugged as well. What that brings into the county,
19 specifically to our schools, to our hospitals - 16
20 million dollars last year, 8 million directly to Eddy
21 County. Twenty-three percent of the state's budget,
22 once again, comes from the oil and gas industry in the
23 State of New Mexico. So you can see that has a
24 significant employment impact and otherwise.
25 Eddy County and our Commissioners totally

36

1 support the oil and gas industry. I actually have one
2 of my County Commissioners who came with me,
3 Commissioner Glen Collier, this morning.
4 Eddy County specifically is made up of
5 about 42 hundred square miles. Of that 42 hundred
6 square miles, 60 percent is controlled by federal
7 agencies and there are five different federal agencies.
8 But even more significant, was when Mr. Lyons was
9 talking about state trust land. Only 18 percent of our
10 land is deed land, or private ownership land, so it is

11 significant to our overall operations that these federal
12 and state lands are open to different types of
13 development and we feel they can co-exist.
14 There are continual efforts from the
15 federal government to withdraw different lands from oil
16 and gas leases and that is of major concern to us
17 because it does cut into our revenue, number one, but
18 what that does as well is it cuts into any future
19 revenues that we have been told by many of these federal
20 agencies, when they take land out of leasing, "Well,
21 there was no value in that because nothing has ever been
22 drilled". Well, we don't believe that. We know for a
23 fact that there are reserves there and we don't get any
24 compensation from that once that happens.
25 We support the oil and gas industry as I

37

1 said. We know that technology is changing today. There
2 are better ways for it to co-exist. With some of the
3 wilderness areas, the Endangered Species Act, and other
4 barriers that get in the way and the bottom line, as we
5 see it, to help make oil and gas more affordable, is
6 basically to get rid of a lot of the bureaucratic red
7 tape and the Endangered Species Act, which is a major

8 barrier.

9 We believe that the intent, the initial
10 intent of the Endangered Species Act is noble and was
11 forthright. We feel it is being used in the wrong
12 direction, most definitely, and we spend a significant
13 amount of time with our Land Use Committee in trying to
14 answer questions having do with the Endangered Species
15 Act.

16 So those are the two big barriers that we
17 feel are in the way and think that you, this committee,
18 could really have some impact.

19 With that, I will close my statement.

20 You have written comments as well and we appreciate the
21 opportunity to be here this morning.

22 **MR. SCHORLERMER: Good morning. My name**

23 is David Schorlermer. I represent Key Energy Services

24 as Vice-President of Strategic Planning. It is an honor
25 to address you today and I would like to thank you for

1 conducting this hearing regarding what I believe is a
2 critical issue of our nation's energy future.

3 Key Energy is a leading production
4 services company; that is, we provide services to oil
5 and natural gas producers. We employ over 8,000
6 personnel and operate in every major basin in the lower
7 48 states from West Virginia to California. Over half
8 of our revenues are derived from natural gas wells. Key
9 Energy is the largest well servicing company in the
10 world, with close to 15 hundred well service rigs, 76

11 drilling rigs, and over 22 hundred fluid hauling
12 vehicles.
13 Our customers include the major oil
14 companies and an ever-decreasing number of independents.
15 Difficult economic conditions resulting from the
16 dramatic volatility in natural gas prices and increasing
17 regulatory restrictions have resulted in many
18 independents exiting the business altogether,
19 particularly in recent years.
20 Natural gas is now recognized as the most
21 volatile commodity in our economy. Volatility is not
22 healthy for our industry over the long term for a
23 variety of reasons. As natural gas prices increase,
24 customers have to receive more for their product, which
25 enhances their short term cash flow; however, there is

39

1 also a negative. Industrial demand is reduced, in some
2 cases permanently. Industrial users of natural gas, for
3 example, ammonia producers which use natural gas for
4 feedstock, shut their plants down and export production
5 overseas when natural gas is cheaper.
6 Additionally, much power generation today
7 is driven by natural gas turbines. Over 90 percent of

8 new power generation capacity coming on line in the
9 future will be driven by natural gas. As prices of
10 natural gas increase, energy bills for electricity for
11 residential and commercial consumers will also increase,
12 thereby producing a significant tax on the economy.
13 Prolonged high energy prices are not good for the health
14 of our economy. On the contrary, when natural gas
15 prices decline, our customers receive less for their
16 product, which typically results in reduced spending and
17 therefore less demand for oilfield services. The result
18 is decreasing production and eventually critical supply
19 demand issues facing our economy as natural gas decline
20 rates continue to accelerate. Simply, the natural gas
21 production treadmill is moving faster.
22 In the meantime, Key Energy and the rest
23 of the oilfield service industry must engage in
24 significant change in our workforce during these cycles.
25 For example, in 2001 we operated close to eleven hundred

1 well service rigs and employed over ten thousand
2 personnel. After natural gas prices fell later in 2002
3 and our customers reduced spending, this resulted in
4 less than 800 rigs working and a loss of close to 2,000
5 personnel due to layoffs and attrition. Anyone who has
6 ever operated a business knows how difficult this
7 process can be on the morale of the entire company and
8 certainly for the employee who is no longer employed.
9 Their memory leads them to other more stable industries

10 and out of the energy industry, permanently in most
11 cases.

12 Key Energy has attempted to address these
13 issues by creating dedicated training facilities across
14 the country to constantly train new employees and we
15 have increased our interaction with Congress and the
16 Department of Labor to provide grants for community
17 colleges for oilfield services training. In fact, we
18 have been successful in working with the Department of
19 Labor Secretary Elaine Chao and Senator Pete Domenici
20 from the great State of New Mexico in providing grants
21 and we appreciate Congress' support in that effort.

22 Our industry has changed dramatically
23 over the last twenty years. Our customers have divested
24 the assets and employees we operate today because of the
25 difficulties of constantly hiring, retaining, and laying

1 off personnel through the neverending cycles of our
2 industry. That obligation is now that of the service
3 company, which doesn't make it any easier when it comes
4 to attracting new talent to our industry. Once highly
5 skilled oilfield service hands that were laid off in the
6 last cycle take jobs assembling computers at Dell
7 Computer or working at Wal-Mart where the threat of
8 another industry downturn is lower.

9 The volatility spending levels of our
10 customers creates the most difficulty; however, we have
11 some customers that operate under a different model.

12 These companies secure more stable prices for their
13 production through hedging agreements or long term
14 delivery contracts. These customers are in essence
15 shielded from the commodity price volatility with
16 respect to their capital budgets. These customers
17 continue working in depressed periods while the majority
18 of producers cut their budgets dramatically because of
19 their uncertainty of cash influence.

20 Additionally, regulatory restrictions on
21 areas with proven reserves reduce available prospects
22 for our customers. New, overly-burdensome regulations
23 also create difficulties for small independents. In
24 Texas alone, over eighteen hundred independents have
25 exited the business in the last two years due to

1 increased regulatory rules. This, during a period of
2 reasonably strong commodity prices.

3 Assistance in developing a more friendly
4 operating environment for producers wanting to
5 understand the rules and not threatened by everchanging
6 regulation may be a part of the solution. While the
7 momentum players in our stocks may not like the
8 lessening of volatility, certainly the managers that
9 have to deal with this volatility would and particularly
10 those who are hoping to attract bright and skilled
11 resources for the future of our industry. Today that
12 future is difficult to predict given the trends that
13 we've experienced in the past. This

14 concludes my formal testimony. Thank you.

15 DR. ARMSTRONG: Congressman Pearce,

16 Congresswoman Wilson: My name is Judy Armstrong and I'm

17 the Provost at the Roswell campus of Eastern New Mexico

18 University. It's indeed an honor and a privilege to

19 have the opportunity to speak with you today and to

20 share the story of ENMU of Roswell's rollercoaster ride

21 with the petroleum industry through our Petroleum

22 Technology Program.

23 My comments are taken from - based on

24 information in our ENMU Roswell history as well as

25 information and insight gathered from the first faculty

43

1 member of the program, Les Langston, and the last

2 director of the program, Bob Cates.

3 The Oilfield Workers Training Program, as

4 it was originally called, started in a very humble way

5 in August of 1975 with only two students, one

6 instructor, a part-time secretary, and a budget of 25

7 thousand dollars - all raised by a local advisory group

8 headed by independent oilmen, Larry Harris and Norm

9 Stevens. In its second year of operation, Mr. Langston

10 received a grant from the Four Corners Commission of

11 forty thousand dollars (\$40,000.00) that got the program
12 off the ground. Various oil companies donated about
13 three hundred thousand dollars (\$300,000.00) worth of
14 oilfield equipment, some of which was used to start a
15 simulated oilfield on campus, which served as an outdoor
16 laboratory and provided hands-on training for the
17 students. By 1976 the Petroleum Technology Program was
18 on its way to becoming a pioneer in its field, a unique,
19 nationally recognized program.
20 Enrollment climbed steadily in the
21 popular program every semester, reaching an all-time
22 high of 521 students in the spring of 1982. By then the
23 program employed sixteen full-time faculty members and
24 six support staff. The program budget also grew
25 steadily and was well over a million dollars for the

44

1 1981-82 and 82-83 fiscal years. The program got its own
2 building, the Oilfield Training Center, in 1981, but
3 even before it was completed, the building was too small
4 to accommodate current and anticipated enrollment so an
5 addition to the building was begun almost immediately
6 and finished in 1982. Life was great and the future
7 looked rosy. We couldn't graduate enough students to

8 meet the demands from the oil industry. As a matter of
9 fact, many students were leaving us before they
10 completed their degrees and after they finished the
11 petroleum part of their training. They were lured away
12 by high salaries and the adventure of the oil industry.
13 And then enrollment crested and took a
14 serious and sudden plunge in 1983 and '84. By 1985,
15 when Mr. Cates came onboard, world drilling programs,
16 OPEC price manipulations, and the absence of outside
17 investors for domestic drilling had left us in a
18 disastrous situation. Since our program is based on
19 formula funding, the 500 students in the program
20 represented a third or more of the total University
21 headcount for those years. More importantly, all the
22 students in that program were full-time students so when
23 our formula funding is based on full-time equivalency
24 and we lose two or three hundred students in one year
25 from that program, we were left in dire straits for the

45

1 next year and many years thereafter. In fact, the
2 University was forced to not only reduce the program's
3 faculty and staff, but also to eliminate two faculty
4 positions in the general education program. It was not

5 until 1987 that our headcount reached the same numbers
6 and several years beyond that before our full-time
7 equivalency was restored to those levels.
8 Mr. Cates and the OTC Foundation tried
9 desperately to save the program through creative
10 partnerships in the schools in New Mexico and West
11 Texas, contracts with the Jicarilla Apache tribe and
12 other Indian tribes, even recruiting students from the
13 Middle East and other oil-producing countries to take
14 short-term, customized training programs, but nothing
15 seemed to work. There just were no jobs. In fact, many
16 of the students that we'd graduated a few years before
17 came back to be retrained for other jobs. However,
18 financial aid couldn't help them because they'd already
19 used up all of their mandated hours going through the
20 Petroleum Technology Program.
21 The program finally stopped admitting
22 students in 1998 and ceased altogether in 2000. Since
23 then, of course, we have been approached for students
24 and graduates of the program, but we have sold all the
25 equipment and given our training materials to New Mexico

2 We feel that one of the big problems was
3 that we were really not the right location for this
4 program. We are too far removed from the major oil
5 companies. Even though our independent oilmen had tried
6 to get Hobbs and Midland to start the program, they were
7 reluctant to do so because of the costs and uncertainty
8 of the program; so we did it and we had some good years
9 and then we had a great decline.

10 We recognize the need for short-term and
11 certificate and degree programs and we are willing to do
12 whatever we can to join the industry to solve this
13 problem. We know it is a volatile industry. We
14 weathered the storm and we have learned quite a bit from
15 that experience.

16 Thank you for the opportunity to speak
17 today.

18 MR. PEARCE: Thank you very much. I do
19 remember Mr. Langston. When we lived here in the early
20 50's, he ran the Humble service station down on the
21 corner of Turner and Marilyn. My folks would stop in
22 and he had this vision of starting this thing off, the
23 training program, and did that. I appreciate the work
24 that the City did accommodating.

25 Do we have a question for the panel.

1 MRS. WILSON: Thank you, Mr. Chairman.

2 Pat, I wanted to ask you, one of the things that we've
3 heard about from both panels is the time that it takes
4 to permit on federal lands. I wonder if you could tell
5 us about the time it takes to permit on state lands and
6 other things that you are doing in the state to reduce
7 the bureaucratic obstacles to nitrogen gas exploration.

8 MR. LYONS: I'd be happy to comment on
9 that. Since I got in office, there used to be about a
10 six-month turnaround. We are working off of at least a
11 minimum of three-month turnaround now. We did a sand
12 and gravel lease in six days, which we sat a record
13 there. So, we are trying to streamline the state
14 government and the State Land Office.

15 To tell you what we did, I instituted
16 what we call customer service. We have 150 employees in
17 the State Land Office and I made every person take that
18 course. No one makes over two phone calls in there or
19 they return the phone call in 24 hours. The approval
20 rating in oil, gas, and minerals was 66 percent. We
21 just finished ours Friday, after we did our customer
22 service. It went up to 86 percent approval rating. So
23 we want to do as quick a turnaround as we can.
24 For one thing, I don't believe in
25 procrastination. Either give the person a "yes" or

1 "no". Don't just leave them hanging out there. That is
2 what we are trying to institute.

3 MR. PEARCE: If I could, to follow up on
4 that same question. Do you think in expediting the
5 permits that we're degrading the environmental security
6 that we are offering?

7 MR. LYONS: Absolutely not. One thing we
8 said, with today's modern technology, we can drill a
9 well in a clean, environmental way and if the company
10 doesn't want to do that, we don't want them on state
11 lands. They will do it in a clean way and we will help
12 them do it.

13 MRS. WILSON: David, you were talking
14 about some of your customers have long-term contracts
15 and that helps in keeping stability in your own work
16 force. Are there barriers that keep other of your
17 customers from having long-term contracts?

18 MR. SCHORLERMER: I don't believe so. I
19 think that historically operating companies have chosen
20 to go with the open markets and not hedge their
21 production because it takes some of the volatility out
22 of their stocks and it may make them more attractive for
23 investors; however, there are companies that have -

24 There is always a question as to why don't you do that,
25 why don't you take advantage of the cost while service

49

1 costs are lower? And the companies I think have proven
2 that you can be a very attractive stock and provide
3 significant returns by choosing this different model;
4 however, XTO Energy is one of these companies that I am
5 familiar with that hedges a lot of their production and
6 takes advantage of declines in our activity levels. And
7 so, it's something that we encourage, but again, a lot
8 of companies have not chosen to do that. The Enron
9 scandal and the fallout of Dynegy hurt some of the
10 hedging programs that have been put in place back in
11 2001. So that, I think, created some disruption in the
12 markets. What I have read recently is a lot of
13 companies have reached their production, particularly
14 with the future strip of natural gas above four dollars
15 out four or five or six years so - It's something that
16 not all companies embrace, but the ones that do I think
17 are being rewarded for it.

18 MR. PEARCE: I also have another
19 question. I believe you mentioned that you had lost
20 eighteen hundred (1,800) independent producers. Don't

21 the majors pick up the production when an independent

22 shuts down a well or will they not? What is your feel

23 on that?

24 MR. SCHORLERMER: I don't think so. I

25 think what we're talking about here are some of the

50

1 smaller independents and these are companies that have,

2 can make money at the lower, lower prices, commodity

3 prices. For example, Exxon Mobil or Chevron Texaco may

4 not choose to pursue a single well that has a very good

5 payback simply because of their size. It doesn't make

6 an impact on their bottom line. But, to the small d and

7 p company, the very small d and p company, that prospect

8 may be very good and may send their children to college

9 over the next several years and make a good living for

10 them. So, the regulations that were put in place there

11 were related to bonding requirements in Texas that

12 simply dried up a lot of the liquidity of these small d

13 and p companies. The point I was trying to make is that

14 here we are, over the last couple of years, it's a

15 pretty strong commodity price environment, and yet,

16 we've pushed eighteen hundred people out of business.

17 It seems like we should be doing things to provide

18 incentives for people to come in and help produce our
19 natural resources.

20 MRS. WILSON: Judy, one of the things
21 that I worry about with the cost of natural gas and
22 electricity both, is its impact on our schools and our
23 school budgets because so many of our schools are heated
24 by natural gas, but also they get an electricity bill.
25 It occurs to me probably as Provost you see those

51

1 effects on your budget. Can you talk to me a little bit
2 about how the cost of natural gas or cost of your
3 electric bills at Eastern New Mexico University are
4 affected by the price of natural gas and what kind of
5 decisions you have to make when that price goes up?
6 DR. ARMSTRONG: Congresswoman, indeed
7 it's a problem for our budget, trying to guess where the
8 energy dollars are going to be the coming year. That
9 and insurance - I know that's not this task force, but -
10 We have done a lot of energy management system. We have
11 relooked at all of our energy management on campus to
12 try to help us contain those costs. We are blessed
13 right now in Chavez County to have some very low
14 electrical costs. We are one of the lowest in the

15 nation I understand, but that, we're told, is not going
16 to last very long so we're trying to anticipate, build
17 our fund balances, be able to support our budget for the
18 next few years as those prices increase. We are doing
19 everything we can to try to keep our own energy
20 management levels as tight as they can be and that costs
21 money, too.

22 MRS. WILSON: For natural gas in the
23 past, have you just relied on your cash reserves to be
24 able to pay it or did you have to cut back programs or
25 how did you handle that?

52

1 DR. ARMSTRONG: If we can anticipate it
2 quickly enough, which all depends on when it happens
3 during the budget season, we will hold off hiring new
4 faculty people. Sometimes we're even forced to stop new
5 programs, not start a new program, until we are sure
6 where the money is going to be during the rest of the
7 year. One of the things we try to do too is always cut
8 the least offensive thing first. So we'll cut travel,
9 cut supplies, and then go to personnel. But the only
10 significant reduction of force we've had caused by this
11 was, again, the Petroleum Technology Center closing.

12 That was very hard on our enrollment.

13 MR. PEARCE: I'm being urged to hurry on,
14 so Steve, if you would just briefly, you mentioned that
15 eighteen percent of your lands are deeded lands. What
16 can we do, in as brief an answer as possible, what can
17 we do from the federal government or with the agency to
18 improve the timing and improve the relationship there on
19 our federal lands? Is there anything that you know
20 offhand?

21 MR. MASSEY: We work fairly well with
22 most of our federal agencies, but the problem is as
23 those grow, we have land exchanges between - We used to
24 be the largest recipient of payment of taxes in the
25 State of New Mexico and one of the largest in the

53

1 country. We're now the second in New Mexico because
2 that formula is usually based on BLM land. The BLM land
3 is being exchanged for the Department of Energy and
4 National Park Service land to the point where now our
5 potential for even getting filth fuel is reducing and we
6 don't have any say in that. No one came and asked us
7 about that. As, I believe it was Mr. Gallagher, has
8 stated, that working with the Bureau of Land Management,

9 sometimes in the hierarchy there, people that are making
10 decisions don't have to clear those decisions with
11 anyone and some of them make absolutely no economic,
12 environmental, or otherwise sense, to us anyway. In
13 trying to keep up with the bureaucratic battles of the
14 United States, I can guarantee you can generate more
15 paperwork than we can ever respond to.

16 MR. PEARCE: I don't find that
17 surprising. We appreciate your input and if we can get
18 the next panel to come up. While they are moving here,
19 discussion on this panel is targeted toward the
20 impediments of production. They are Payton Yates from
21 Yates Petroleum; Richard Fraley, Burlington Resources in
22 the northwest part of the State, San Juan County;
23 President Claudia Vigil-Muniz, Jicarillo Apache Nation;
24 and Lewis Derrick, rancher, to discuss some of the
25 problems there with the private owners.

54

1 We'll start in the same order that we
2 went, Payton and then Richard and President Vigil-Muniz
3 and wrap it up with Lewis.

4 MR. YATES: Congresswoman Wilson,
5 Congressman Pearce, staffers, and interested parties:

6 My name is Payton Yates. I serve as Executive VP of
7 Yates Petroleum Corporation in Artesia in oil and gas
8 exploration. We have a long experience of dealing on
9 federal, state, and private leases in several western
10 states. This next year we will celebrate our 80th year
11 of oil and gas production in New Mexico, the town of
12 Artesia will. Put down April 24th on your calendar and
13 we invite you to come. We hope to have a big ceremony
14 and dedication of a huge statue. That is why I came, to
15 get in that plug.

16 We have been asked to address the subject
17 of impediments to drilling on federal lands. These
18 impediments are important because they involve increased
19 costs, very often expressed in the matter of time. The
20 loss of time, as you well understand, is a loss of
21 money.

22 One of the biggest impediments we have
23 nationwide is that of taxes. Oil and gas drillers are
24 actually penalized. If they drill too many wells, our
25 income taxes go up for the following wells and that's

55

1 under the alternative minimum tax. I think it's going
2 to be addressed in the Energy Bill, but it is a very

3 critical item that actually slows down drilling when you
4 get to a certain point of drilling. This is absolutely,
5 180 degrees counter to any kind of new or national
6 energy policy and it's very typical of the kind of
7 approaches the federal government uses.
8 Our increased costs for being on federal
9 lands can run from a few thousand dollars to over a
10 million dollars if operators are forced to pay for a
11 Federal Environmental Impact Statement. In time delays,
12 when compared to state or fee leases, it can run from a
13 month and a half to two years, depending on whether the
14 EIS is completed or is underway. Time delays are
15 extremely costly and windows of opportunity can be lost
16 and never recovered if oil prices or gas prices drop
17 while time delays are taking place. There is no
18 postponement of market activities during postponement of
19 leasing and drilling activity by the federal government.
20 There are three main operations that take
21 place - I am trying to get through this as quickly as I
22 can - seismic activities, drilling, and production. And
23 we are influenced on federal leases by federal
24 regulation in each case.
25 We have a handout to you that we will go

1 over in just a minute, but first on seismic activities.

2 We know of no time deadlines or in-house structural

3 process within the federal government for approval of

4 seismic permits. This means they are not forced to move

5 on a timely basis when seismic, requests for seismic

6 permits are taking place. And this is very important.

7 We'll come back to this in a minute.

8 Secondly, the APD, application to drill,

9 involves a tremendous amount of detailed time

10 requirements. It is the most structured process.

11 That's what you have in front of you today and we will

12 have comment in our formal writings about that. Please

13 note on that eight and a half by eleven sheet that you

14 have, you look at it sideways, all of the specialists

15 that are involved are from the federal government - the

16 people who know about bugs, the archeologists, etc. Each

17 one of those specialists can shut down the process and,

18 if they have a personal agenda or some reason

19 willy-nilly that they want to shut down an application

20 process, they can do so. It is very critical that

21 managers have the ability to make reasonable decisions

22 and overrule some of the ridiculous concerns that are

23 expressed by some of those specialists.

24 The pipeline right-of-way process.

25 Please note too that the time involved to get these

1 applications approved - Look at the difference between a
2 Roswell application in the last year for us at 45 days
3 approximately at the bottom right-hand side of that
4 horizontal page, 45 days to get a drilling permit
5 approved, and 175 days in Wyoming. Ridiculous the
6 difference in time and I know that your view is to look
7 nation-wide at this problem and not just in New Mexico.
8 Things have improved in New Mexico with
9 respect to the APD's, but the right-of-way situation is,
10 for pipelines, is absolutely critical. We've got to get
11 the well hooked up to deliver the gas. And we have
12 noticed that when pressure is put on the BLM to improve
13 the APD time process, they take people off of the right-
14 of-way process and make that longer. You think you are
15 doing better getting a well drilled, but you cannot get
16 the gas out of there any faster.
17 I think that we have noticed two things
18 here - I will try to finish very quickly - I have one
19 minute when this runs up, right? The seismic, when
20 there are no time constraints or when there is
21 mismanagement in the BLM office, we will see a tendency,
22 and particularly if there is more than one federal
23 agency, we will see a tendency of someone in that office
24 to extort monies, not for personal use, but for federal

25 use, from us. For example, we put in a seismic permit

58

1 and they said would you come spray the mesquite bushes

2 before you shoot the seismic. That has nothing to do

3 with it, but they want us to do that. I call that

4 extortion. They have asked us to contribute money to

5 Fish and Wildlife projects or contribute money and

6 conduct archeology projects that have nothing to do with

7 the application. And this is because these specialists

8 come in and have too much control and do not have a

9 manager doing their job or they do not have time

10 constraints that force them to act in a rational, quick

11 way.

12 Secondly, the longer the federal delays

13 the industry experiences, the greater number of

14 applications that you have to put in in order to get

15 something done. The more applications that you put in,

16 the more it backlogs the system. It is just like when

17 the Johnny Carson show, they announced that there was a

18 toilet paper shortage and everybody the next day went

19 out and bought toilet paper - this was twenty or thirty

20 years ago - and we had a toilet paper shortage. The

21 same thing happens when you have a shortage when you

22 have a time constraint, on - I will stop - when you have
23 time problems with - and you know that you have time
24 problems - you submit a whole bunch of applications,
25 hoping that one gets done, you create a backlog. The

59

1 State of New Mexico, that doesn't happen. Two or three
2 days, a week to get a well approved, you know, you wait
3 until a week or two before to put your application in
4 and you get it done quickly. So state permits - I want
5 to show these pictures and if you have questions, I'll
6 answer that later about these pictures.

7 MR. PEARCE: Thank you very much.

8 MR. FRALEY: I'm Richard Fraley. I'm
9 with Burlington Resources. We're the largest natural
10 gas producer in the State of New Mexico.

11 Representatives Pearce and Wilson, thank you for
12 inviting me to be here today to visit with you about
13 this important subject. I'm going to limit my verbal
14 discussion to what we need to do to get more of this
15 gas, which is in abundant supply, to markets that we
16 mentioned earlier because demand will increase.

17 So what's caused us to struggle to meet
18 demands? The problem is twofold. Not long ago we

19 explored and helped develop many of the best producing
20 gas fields in the areas that were open to energy
21 production. Today we're picking over many of these
22 areas, which are already very mature, but with our
23 improved technologies we are still able to find and
24 economically recover gas, but in smaller quantities that
25 deplete faster. That's led to the situation shown on

60

1 the chart on your left provided by our colleagues at EOG
2 Resources. Each different color band is gas from
3 oilwells drilled in the United States in the year shown
4 from left to right. As you can see, production from the
5 wells in a given year declines at an increasing rate as
6 we move forward in time. Some of these picked-over
7 areas, we need to drill more and more wells just to
8 maintain production. In the San Juan Basin of New
9 Mexico, for example, the base production decline is
10 around twelve percent each year, meaning that we have to
11 continue a very active drilling program just to prevent
12 a drop off of supplies to consumers.
13 Second, the fact is that the best
14 prospects for future onshore natural gas supplies are
15 under government lands in the Rocky Mountain region.

16 This is one of the areas from which future supplies must
17 come and 90 percent of these natural gas resources in
18 the region are not proven or available to consumers
19 because they haven't been drilled. We are not talking
20 about resources in national parks or wilderness areas
21 that the Congress has appropriately deemed off-limits
22 and closed to development. We are talking about areas
23 that under current U.S. law are supposed to be leaseable
24 and accessible so they can meet consumer needs. As Alan
25 Greenspan said a few weeks ago, "We've constrained our

61

1 ability to turn our resources into supply."
2 The National Petroleum Council has
3 estimated in its 1999 study that will soon be updated,
4 that some forty percent of the resources in the Rockies
5 are either not available or are restricted. One example
6 is a national forest in Wyoming that is supposed to be
7 available for natural gas activity, but on which not a
8 single lease application has been processed since 1996.
9 But even where leases have been issued, delays in the
10 permit consideration process can have a measurable
11 negative impact on gas supply.
12 To look at the San Juan Basin in New

13 Mexico and Colorado, we are the most active producer.
14 The San Juan Basin is one of the most prolific natural
15 gas fields in the country. Production from beneath
16 federal lands there results in about four billion cubic
17 feet of gas per day going to U.S. markets to generate
18 electricity and meet consumer demand. This is an area
19 in which significant permit process improvement efforts
20 have been underway by the Department of the Interior at
21 the initiative of the New Mexico congressional
22 delegation to insure that there are enough personnel and
23 resources available for the BLM to do its job.
24 We will have a graph up shortly on the
25 San Juan Basin permits. What you will be able to see is

62

1 that, based on approvals received through mid-July of
2 2003, we do project more permits will be approved this
3 year than in previous years and the resulting gas
4 supplies will go to market quickly. Clearly permit
5 process improvement efforts can continue.
6 Consider that in the San Juan Basin a
7 permitted well might be drilled, completed, and start
8 flowing gas to consumers in only 30 days. Yet it takes
9 an average of more than 90 days to get an APD decision

10 and sometimes it can take more than a year. Some of
11 these delays occur with respect to sights that have had
12 repetitive environmental assessments that show
13 acceptable practices can be used to develop the natural
14 gas.

15 On a broader scale, work by the
16 Independent Petroleum Association of American, or IPAMS,
17 indicates the delays can be just as severe or more
18 severe in other areas. According to the IPAMS' data,
19 the national average processing time for APD's slowed by
20 60 percent in 2002. Permits took 84 days in 2001 and on
21 the average took 137 days in 2002. Company
22 representatives are working with BLM, Forest Service,
23 and other stakeholders in energy-producing areas to
24 address environmental, grazing, and other issues. They
25 are meeting on the ground with surface owners and users

63

1 early in the well planning process to spot any potential
2 conflicts before they arise.

3 One group, the Domestic Petroleum
4 Council, to which we belong, is also recommending
5 comprehensive benchmarking and process improvement
6 program that I understand the BLM is at least

7 considering. Just ten days ago the Director of the BLM
8 announced several initiatives designed to improve the
9 agency's permitting process.

10 The Congress needs to do more to
11 encourage accountability in the permit consideration
12 process. For example, in addition to insuring adequate
13 agency resources, we would strongly support Congress
14 putting in place the process that's sent to the Bureau
15 of Land Management and the Forest Service to consider
16 applications for permits to drill in a timely manner.
17 If there are problems with the application themselves or
18 with what is proposed in them, tell the applicants what
19 the problems are in a timely way. If the applicant does
20 what is required by law and regulation, whether
21 environmentally related or otherwise, approve the permit
22 in a timely manner. This is common sense.
23 Finally, we take our job of working side
24 by side with the other stakeholders in our region in
25 terms of ranchers, grazers, and multi-users very

64

1 seriously. We know that we generate a lot of economic
2 contributions to the state, but that's not enough. We
3 also know that our new technology allows us to drill on

4 smaller pads than we could just a few years ago, but
5 that is not enough as well. We will continue to
6 cooperate with those in the areas that are affected by
7 our activities and work with the BLM and the EPA and
8 other federal and regulatory agencies that serve as
9 stewards of the land. We accept our responsibility to
10 be good corporate citizens to protect the environment to
11 the fullest extent while providing the state and the
12 nation with this critical fuel.

13 I appreciate your time. Thank you for
14 letting me share my views.

15 MS. VIGIL-MUNIZ: Good morning. I am
16 Claudia Vigil-Muniz, President of the Jicarilla Apache
17 Nation. Thank you for the opportunity to present these
18 remarks. I want to acknowledge both Congressman Pearce
19 and Congresswoman Wilson for the hard work and
20 dedication to Native American issues.

21 The Jicarilla Apache Reservation is
22 located in north central New Mexico, bordering Colorado
23 and is situated in the eastern edge of the San Juan
24 Basin, the second largest gas field in the lower 48
25 states. The Nation is one of the largest producers of

1 natural gas of the tribes in the country. We rely on
2 production of our reserves to fund over 90 percent of
3 our governmental operations. Our reservation has
4 substantial undeveloped natural gas, which could be
5 developed for our economic security and
6 self-sufficiency.

7 Indian lands nationwide contain an
8 estimated ten percent of all energy reserves in the
9 country, including ten percent of known on-shore natural
10 gas deposits. The Department of Interior further
11 estimates that only 25 percent of the oil and less than
12 20 percent of all natural gas reserves on Indian lands
13 have been developed. In our region a recent Federal
14 survey estimates that the San Juan Basin holds twice as
15 much undiscovered natural gas than scientists have
16 previously believed existed. In spite of this
17 tremendous untapped energy potential, Indian lands
18 remain severely undeveloped. Today I will briefly
19 describe some of the key barriers we're facing in
20 developing our natural gas reserves.

21 First, the double taxation burden that
22 currently exists on Indian lands is the greatest
23 hindrance and impediment to energy development on Indian
24 lands. This problem was created by a 1989 Supreme Court
25 decision permitting the State of New Mexico to impose a

1 tax on non-Indian producers operating on our
2 reservation, barely recognizing tribes have the inherent
3 governmental authority to tax within their territory.
4 By allowing the State to impose taxes on top of tribal
5 taxes, the Supreme Court has severely damaged tribal
6 colonies by weakening our tribe's tax base. This
7 decision impacts all Indian reservations and therefore
8 has become a powerful disincentive for energy
9 development nationwide. After several years of
10 negotiations, the New Mexico State Legislature in 1999
11 enacted a tax credit reducing State taxes on oil and gas
12 produced from some of the wells on our reservation. We
13 welcome this cooperation with the state, but the state
14 tax credit does not completely eliminate the double
15 taxation burden.
16 Congress can provide some solutions to
17 this problem by enacting a federal tax credit for oil
18 and gas produced on Indian lands. These types of tax
19 incentives are needed because tribal economies are not
20 diversified enough to allow tribes to waive their taxes.
21 There simply is no other tax base. A federal tax credit
22 for Indian oil and gas will greatly increase production
23 from Indian lands, thereby generating additional revenue
24 to the tribes. Such a credit will offset the double tax
25 burden without reducing tax revenues to state and local

1 governments. In some, these tax incentives will
2 stimulate tribal energy development, increased domestic
3 production, and reduce dependency on foreign sources.
4 These objectives are squarely within the key domestic
5 energy goals.

6 Another impact that we face is the
7 bureaucratic federal approval processes and dual
8 regulations. The Secretary of the Interior is the
9 primary administrator of the Indian Trust and is
10 required by law to approve all leases and other
11 conveyances of Indian lands. This trust responsibility
12 has evolved into a series of lengthy, cumbersome, and
13 expensive review processes which have become a
14 disincentive for energy development on Indian land.

15 Part of the solution will be to streamline these.

16 Senator Domenici and Senator Campbell have crafted a
17 measure in the National Energy Bill which would allow
18 tribes to assume primary authority in approving energy
19 development and leases, rights-of-way, or business
20 agreements. A participating tribe would have to
21 demonstrate its capacity to undertake these
22 responsibilities and enter into a tribal energy resource

23 agreement, or TERA, with the Secretary. Once the
24 secretary approves a TERA, that tribe would have the
25 primary authority to approve energy leases and

68

1 agreements without having to have separate approval by
2 the Secretary. The Jicarilla Apache Nation is not
3 currently prepared to enter into a TERA, but we do
4 support the Indian Energy Title and the decision of
5 tribes who choose to use a TERA for energy development.
6 Negotiating and securing approvals for
7 energy development agreements is just the first step.
8 Every other step is subject to bureaucratic burdens that
9 hinder development. Producers on Indian lands are
10 hindered by double and sometimes triple regulations at
11 every step. The federal government must approve every
12 step of the production activity. And even though state
13 governments generally do not have the authority to
14 regulate on Indian lands, the producers frequently are
15 required to comply with state regulations in order to
16 move the oil and gas off of Indian lands. Thus, the
17 producer is faced with three levels of regulatory and
18 is subject to sometimes conflicting requirements. This
19 situation discourages development of tribal oil and gas.

20 The Jicarilla Apache Nation would like to
21 see Congress take action to require the BLM and other
22 federal agencies to contract their regulatory functions
23 and their funding to the tribes.
24 As more fully described in my written
25 remarks, we also need assistance in enforcement issues,

69

1 access to more capital, as well as adequate pipelines
2 and related restructure.
3 In closing, we seek support from this
4 task force for full legislative measures to correct the
5 failed policies of double taxation and double regulation
6 and to add tax incentives for Indian oil and gas
7 development.
8 Thank you again for the opportunity to
9 share these remarks with you.

10 MR. DERRICK: My name is Lewis Derrick, a
11 representative of the New Mexico Cattle Growers
12 Association and Chairman of the Oil and Gas
13 Sub-committee. Mr. Pearce and Mrs. Wilson, I do
14 appreciate this.
15 Livestock producers are not anti-oil and
16 gas; however, some present situations, coupled with

17 historical problems, have need of improvement and
18 solutions will require cooperation from federal
19 agencies, Congress, New Mexico State Land Office, and
20 New Mexico Conservation Division.

21 Some of the issues on the surface use is
22 - Surface use is to use existing roads where available
23 and to be used by all operators. There is no need for
24 operators to build parallel roads to go to the same
25 areas. Oil and gas should have a formula when several

70

1 operators are using the same road to keep it maintained.
2 Livestock operators should not have to call every
3 company to try to get the road fixed and the buck is
4 passed and nothing is done. But, this also includes
5 cattleguards - installing cattleguards out there where
6 they are not cleaned out and where livestock can get
7 out.

8 New roads built by oil and gas should not
9 be public roads. New roads that open new areas cause
10 more problem for ranchers such as traffic and entering
11 of the pastures, causing livestock problems. And it
12 could affect some wildlife issues. Oil and gas should
13 be able to block access into their wells and tank

14 batteries to protect property and for the rancher's
15 benefit on a case by case basis. You are not denying
16 public access if the existing road's going in there and
17 they bank off and go to another existing and have to
18 build a couple of more miles of road. People can still
19 hunt in the area or whatever.

20 Things such as pipelines can be put in
21 road corridors where it is reasonable to do so.
22 Historical pipeline situations and some new pipeline
23 installation need to be dealt with on erosion control.
24 Power lines should be done in the same respective
25 instead of parallel lines running next to each other.

71

1 Companies should be able to use the same power source
2 and different meters, but as I understand, this will
3 also take a law change, but this is one of several
4 things both industries can work together on to try to
5 change.

6 Oilfield location spacing. Locations in
7 some areas are ten to twenty acres spacing and closer if
8 you have different oil and gas zones. Not only is this
9 tough to ranch in this situation, but the accumulative
10 effect of roads, pipelines, and locations could affect

11 watersheds. Watershed monitoring or assessment is on
12 the horizon with the federal agencies and may affect
13 both industries and bring the Clean Water Act into play.
14 Neither industry wants to see this and how we resolve
15 this idea, I have no idea, but maybe someone can come up
16 with a solution.

17 Water issues. Fresh water is becoming a
18 scarce resource in New Mexico and needs to be protected
19 scientifically. Some areas may not have an abundance of
20 fresh ground water, but other areas may have it at
21 greater depths and it needs to make sure with the best
22 science that the water is protected. Also, disposal
23 water needs continuous support for technologies to
24 explore the practical use of produce water, which would
25 be a great help to New Mexico and the water shortages we

72

1 have; however, state water law needs to be changed to
2 make this possible.

3 Compensation. This is one of the main
4 controversies, but this must be changed, especially on
5 the federal land. This is biased against the multiple
6 use concept of the surface owner or leasee suffering the
7 most on losses. Land owners and leasees should be

8 included in the staking of well roads and pipelines.
9 And as I wrote this, that is in a policy now that BLM
10 has done that we're included on staking of locations and
11 things and that is greatly appreciated. A suggestion
12 for compensation that would be done on formula of pad
13 size, width of the pipeline, width of roads or
14 seismograph work. Another suggestion, if oil and gas
15 companies drill a dry hole, they could reclaim what is
16 disturbed with no compensation being required. Senator
17 Craig from Idaho has put out a press release, January
18 31st, 2002, stating grazing allotments do carry the
19 weight of property rights and it is a ruling from the
20 Hage versus the United States, which is a monumental
21 decision for both state and water sovereignty and its
22 property rights on grazing allotments. I have attached
23 that press release from the Senator.
24 Conservation and Reclamation Act. It's
25 not the Reclamation Act; it's the Reinvestment Act, but

73

1 I wanted to put that forward. Maybe we can sub-title
2 this underneath there where we could use that money for
3 what it is supposed to be used for, is reclamation. The
4 money is collected from offshore drilling revenue and is

5 being used by more and more private land, destroying tax
6 base of counties, causing economic harm in situations of
7 non-use of land. The federal government owns too much
8 land already and this money could be used for
9 reclamation projects in areas where old oil and gas
10 fields have problems or new fields. This money can be
11 used for brush control, revegetation, noxious weed
12 control, and erosion control, but this will takes
13 Congress' help with ranchers and oil and gas working
14 together.

15 Conclusion. We believe there are
16 responsible oil and gas producers and believe that oil
17 and gas should not turn a blind eye to bad operators
18 just as we should not turn a blind eye to bad ranching
19 operators. We hope this can be worked out in a
20 cooperative manner. If not, the issues that are going
21 on all over the west will be in the courts and the money
22 for lawyers will be used up in courts and not on the
23 ground. I know that both industries are for capitalism
24 and free enterprise, but there is a difference between
25 oil and gas and ranching. Oil and gas producers make

2 for our livelihood. A lot of ranches have been handed
3 down from generation to generation and oil and gas and
4 historical areas have also been handed down. I was
5 always taught growing up to live and let live and I'm
6 asking the same thing today because we do have our
7 differences, but we also have things to work on in
8 common for the survival of both industries.

9 Again I thank you.

10 MRS. WILSON: Richard, you mentioned in
11 passing some of the new technologies that are changing
12 industry and the extraction of natural gas in
13 particular. I wonder if you could go into a little more
14 detail on that, what you're seeing, what you're
15 implementing here in New Mexico now, and then what you
16 think the future will bring with respect to new
17 technology.

18 MR. FRALEY: Okay. Some of the things we
19 are doing here is really quite simple, really result in
20 a smaller footprint for your producing well. We are
21 able to use smaller rigs. We configure the rigs in a
22 way that drill specialized wells that we know we will
23 drill many times in the San Juan Basin. Our reclamation
24 efforts. We worked closely with New Mexico State and
25 have tried to actually mold some grass into the

1 location, which allows us to reclaim what begins as kind
2 of a three to four acre sight down to about,
3 effectively, one and half acres and we're actually in
4 production of the well. One thing that is mentioned
5 often is extended reach drilling and horizontal drilling
6 in order to access resources under areas where you don't
7 want to have vertical wells drilled for whatever reason.
8 That is an application, but of course that's something
9 that you always have to look at the economics of the
10 situation. I think the fluids that we use are much
11 cleaner today to stimulate the rock, to get the gas out
12 of the ground. That is representative of the kind of
13 technologies that have advanced and continue to advance
14 as we move forward with our industry.

15 MR. PEARCE: Thank you. President
16 Vigil-Muniz, you have discussed that we have
17 underdeveloped in the Native American lands. Do you see
18 a strong consensus among tribal members that we should
19 go ahead and develop those lands or is there strong
20 discord on that particular idea?

21 MS. VIGIL-MUNIZ: No, we have a lot of
22 support and, in fact, you will find throughout Indian
23 country we belong to an organization, as you know, the
24 Counsel of Energy Resource Tribes, who have come
25 together and who agree that we do need to do more

1 development, mostly because of the economic situations
2 that a lot of reservations have to deal with. We are
3 not all Indian tribes and so, you know, we are one tribe
4 that relies heavily on our oil and gas production and if
5 there is no activity going on, there's no money coming
6 in. Our brothers and sisters to the north also suffer
7 because of the lack of activity. They can't do anything
8 until this dual taxation is removed.

9 MRS. WILSON: Payton, you made mention in
10 your testimony the difference between a permit to drill
11 here, 45 days here and some of your sites in New Mexico,
12 and 175 days in Wyoming. What's causing the difference?
13 Why is there that difference?

14 MR. YATES: Well, the primary difference
15 is the environmental activism that takes place in
16 Wyoming and the number of activities. If you look on
17 that one chart that I gave you put out by various
18 industries, it shows you all the windows that you might
19 have to encounter on one lease and you have to worry
20 about whether there are any hawks breeding or nesting at
21 that time. You have to worry about sagebrush hens, sage
22 hens. You have to worry about all these different
23 things and they give you little windows that you cannot,

24 or that you can drill in and not disturb those items.

25 If you put them all together on one of those leases you

77

1 may only have 60 days. We are beginning to see

2 Congress, that the - These same kind of things, or

3 ideas, are being brought down to southeast New Mexico

4 where they are trying to do the same thing with lesser

5 prairie chickens and trying to do the same thing with

6 some little lizard and it is a movement by the

7 environmental community, who is very definitely

8 anti-energy production. They certainly don't mind

9 getting on an airplane and flying off to an

10 environmental conference going to a wilderness area and

11 hiking in and then they fly back home, but they do not

12 want the rest of us to have energy and so they use these

13 techniques and, through lawsuits or whatever, to force

14 the feds to do this. There is also a lot of activism in

15 the federal system itself. One thing that I think you

16 could take a look at down here is, these are pictures of

17 four different locations, two in Wyoming and two in New

18 Mexico. Two of them are federal leases and two of them

19 are state leases. The state leases probably took three

20 or four days to get approval. The federal leases took

21 anywhere from 45 to 175 or so, sometimes years to get
22 approval to drill. You tell me which is which. I can't
23 tell you unless I go look at the back of the chart which
24 are federal leases. The same result, the same result in
25 damage. You build a location, you drill a well. And I

78

1 think that we do so much extra work that is not
2 necessary on a federal lease. It is driven by NEPA.
3 NEPA is the crux of our problems. I think that a lot of
4 the problems that were mentioned on the Indian
5 reservation, where they have such burdensome federal
6 regulations, the NEPA, the feds regard every location as
7 a major environmental impact and the law needs to be
8 changed. These locations are not a major event and we
9 have sent some recommendations in that we need to define
10 what major environmental impact is, an event. And we
11 find that when you go out and treat each well as a major
12 event, then you have these burdensome regulations that
13 take place and cause time delays and cost a lot of
14 money. And they are affecting the ability of the Indian
15 tribes to get locations approved, they're affecting our
16 ability to get locations approved, they're creating a
17 huge cost in the federal government to go and have five

18 or six people show up at a location to just do this.
19 And it's gotten to the point of absurdity. As I
20 mentioned earlier, there's all kinds of implications to
21 that. And so, if there's any one thing that I think can
22 be done is to go back and look at the basic law itself
23 from which they derived the power and ability to do
24 these kinds of things. Thank you very much.
25 MR. PEARCE: Lewis, you brought the point

79

1 of the need to consider the land owners. What are the
2 communication processes right now between land owners
3 and the ranching industry and the oil and gas industry?
4 Are we effectively doing that communication? Tell me a
5 little bit about that from your perspective.
6 MR. DERRICK: Well, we worked on a draft
7 and the oil and gas approved it, draft just the other
8 day, the way I understood it, where the land owner can
9 go out there, and with the oil and gas people, to see
10 where they are staking the location, where they are
11 putting the road and the reason I understood - I think
12 this policy, the oil and gas agreed to it, because we
13 had an oil and gas meeting at Roswell last week and it
14 seemed like most of the oil and gas operators were in

15 agreement with it. I mean, the rancher can show up if
16 he wants to. We put it that it shouldn't be an area
17 where livestock operators are to hold up the process,
18 but they need to get it talked out at the time
19 everything is going on out there.
20 MR. PEARCE: Richard, it really does get
21 difficult to untangle the difficulties in the
22 bureaucratic process. One of the concepts that was
23 mentioned to me was the concept of defensive medicine.
24 When we go into the doctor we get unlimited tests
25 because the doctor is simply afraid of suits. He is

80

1 afraid of what would be said if there is something there
2 that maybe some test might have caught. Is that very --
3 Does the same thing paralleling over in the oil and gas
4 industry, is that - do you think the people in the
5 agencies are dealing with that fear that if they don't
6 do enough investigation, if they don't hold the process
7 up and look, that they will be subject to lawsuit or
8 subject to criticism? I don't know, it's an interesting
9 concept.
10 MR. FRALEY: Well, I think obviously we
11 live in a litigious environment in a litigious country

12 and I think a lot of people do perceive from the
13 perspective of what will happen should their actions be
14 deemed inadequate. I think I would agree with your
15 statement to a degree. It's very true, as I mentioned,
16 we have locations where we drilled an existing well -
17 may have been drilled ten years ago; may have been
18 drilled thirty years ago - and we want to go in and
19 drill a new well on that location to another zone. And
20 for us to use that existing pad we have to have another
21 assessment, environmental assessment, archaeological
22 assessment of that location. I would assume that by the
23 time you drilled your third or fourth well you should
24 have found everything that you are going to find and so
25 we do find relations like that, that they are

81

1 repetitive, that appear to be very conservative to
2 insure that there is not a situation arising. So I
3 think that a situation described in the analogy you used
4 is also a good one to use in permitting with regards to
5 oil and gas. It's also true, when you end up with the
6 interagency issues, like with the tribes, where the
7 tribe has a hand, the BLM has a hand in the permit,
8 sometimes the Bureau of Reclamation may have a hand in

9 the permit as well and you have duplicative things that
10 you have to do for these various agencies before you
11 receive a permit.

12 MR. PEARCE: I think that is the
13 questions, all the questions for this particular panel.
14 We are going to have closing statements, but if you
15 would like to move back out into the audience, we will
16 have closing statements. We will wrap up. In fact, we
17 have twelve o'clock on the schedule. For the first
18 closing statement we move to Congresswoman Wilson.

19 MRS. WILSON: Thank you. Steve, I just
20 wanted to thank you for bringing people together on this
21 wonderful morning and thank all of you who came and
22 presented today and shared your experience and
23 perspectives on what we can do to affect the shortage of
24 natural gas and try to reduce the volatility of the
25 price. This is a very good set of presentations and I

82

1 very much appreciate it. Thank you.

2 MR. PEARCE: Thank you. Again, just to
3 review the purposes that we have together here. First
4 of all, we have a shortage in natural gas that is
5 appearing to be dramatic. It is maybe more extreme than

6 the shortages that we have seen in the past and so the
7 Speaker wanted us to talk about the causes for the
8 natural gas shortage, he wanted us to discuss the impact
9 on Americans and American lives, and finally, to discuss
10 short- and long-term solutions. Now keep in mind that
11 we take this testimony and we've got eighteen members of
12 the committee who are gathering testimony exactly like
13 this around the nation. We are going to go back and
14 dedicate ourselves, before the crisis comes, to giving
15 some solutions to it.

16 I had visitors from the Gulf Coast in my
17 office as early as February. They understood that I
18 worked in the oil and gas industry and they told about
19 chemical plants that were beginning to shut down and
20 jobs that would move offshore, jobs that would never
21 come back like you heard it from the potash and
22 fertilizer industry.

23 I don't know exactly what the balance is
24 between those who say that we should not have any
25 drilling to preserve our environment and those who say

83

1 that affordable energy and affordable food are the base
2 of our way of life, that without those we are going to

3 make - there will be a day of reckoning without
4 affordable food and affordable energy. When we begin to
5 develop significantly greater parts of our disposable
6 income to those two components, life as we know it will
7 change.

8 I think right now Congress is committed
9 to sustaining life as we know it, to finding solutions.

10 Short-term solutions have to come from the natural gas
11 industry. Long-term solutions can begin to deal with
12 the alternatives, but frankly, there are not many of
13 those that appear to be economic. The delivery
14 mechanism does not exist for those.

15 Chairman Greenspan talked about the
16 importation of LPG, but the infrastructure doesn't exist
17 to bring it in, mainly the infrastructure does not exist
18 to move it around and store it and I am not sure how
19 many of us would want one of the tanks sitting behind
20 our homes.

21 I don't know how many of us want to
22 export more jobs out of this nation to other nations,
23 and that, at the end of the day, is one of the
24 significant questions that we have to deal with - the
25 economic base of the country, the economic base of our

1 counties, where our jobs are going to come from, and
2 where we are going to get the resources that we need to
3 sustain a way of life that is truly remarkable in the
4 world. It is worth fighting for. It is worth thinking
5 about up front. I think that is why the Speaker
6 commissioned this panel, that's the reason we came in
7 today to get the comments from New Mexico to take back
8 and put into the overall hearings.

9 If I could sum up the testimony that I
10 have heard today, it would be that the federal
11 government needs to remove barriers, including tax
12 structure, to the reasonable, rational development of
13 our energy resources on non-park, non-wilderness public
14 lands. Otherwise, stay out of the way; we must solve
15 the problem.

16 We have heard your voice and we will
17 deliver your message to Washington, D.C. I appreciate
18 your participation, those of you who came and
19 participated on the panel. I appreciate those of you
20 who came to listen because it is an extremely important,
21 urgent issue.

22 This concludes this meeting of the
23 Speaker's Task Force for Affordable Natural Gas. We
24 stand adjourned.

25

The Task Force For Affordable Natural Gas
United States House of Representatives
Washington, DC 20515
[Contact the Task Force](#)