

Testimony of Randall Luthi
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U.S. House of Representatives Committee on Natural Resources
Subcommittee on Energy and Mineral Resources
Legislative Hearing on H.R. 5577, "Innovation in Offshore Leasing Act"

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Chairman Lamborn, Ranking Member Lowenthal, Congressman Graves and Members of the Subcommittee, good morning, and thank you for the opportunity to testify today. My name is Randall Luthi, and I am the President of the National Ocean Industries Association (NOIA). I appreciate the opportunity to offer NOIA's views on HR 5577, the Innovation in Offshore Leasing Act, and I applaud Congressmen Graves and Lowenthal for their bipartisan sponsorship of this bill.

Comprised of approximately 300 member companies, NOIA is the only national trade association representing all segments of the offshore energy industry. For over 40 years, NOIA has been committed to ensuring a strong, viable U.S. offshore energy industry capable of meeting the energy needs of our nation in an efficient and environmentally responsible manner. NOIA member companies are engaged in traditional oil and natural gas exploration and production, as well as offshore wind energy development. Our member companies are proud that they have been able to contribute to America's energy security, and we want to be able to continue providing that service.

The offshore oil and gas leasing program has been a resounding success for American taxpayers and energy consumers. Even today, under depressed oil and natural gas prices, the offshore U.S. produces about 16% of our nation's oil and about 5% of its natural gas. The offshore is, and has been, a major factor in the U.S. becoming the world's leading producer of oil and natural gas. Offshore oil and natural gas provides a geographically diverse source of energy, which results in greater energy reliability and security.

This is even more remarkable given there is so little of the outer continental shelf (OCS) that is available for exploration. Under current Federal policies, about 87% of the U.S. offshore is barred from exploration, including the entire Atlantic. No other country along the Atlantic Basin with an offshore oil and gas leasing program has closed so much of its energy potential. In fact, we don't even know what the energy potential is, because we have not looked for over a generation.

While I recognize that is not the subject of today's hearing, it is important to understand the context in which our nation exists with regard to our domestic offshore resources.

In addition to providing energy to our nation, the offshore oil and natural gas industry has provided billions of dollars to the U.S. Treasury through bonus bids, rental payments and royalties. Thanks to the bipartisan Gulf of Mexico Energy Security Act, which became law in

2006, a portion of those industry funds are available to the Gulf of Mexico states as well. The offshore oil and natural gas industry is also the sole source of funding for the Land and Water Conservation Fund and the National Historic Preservation Fund. An important source of that revenue is a direct result of the offshore lease sales, which we are here to talk about today. Thus, it is vital that the integrity, reliability and availability of offshore lease sales are preserved and protected as you evaluate changes to the lease sale process.

Offshore lease sales are steeped in regulation and tradition. To the first time observer, it might appear as a combination of the Academy Awards and Deal or No Deal. Bids are delivered to the podium in brief cases and then the bids announced. Our nation's policy leaders have recognized the importance of the sales, and Secretaries of the Interior, both within Democrat and Republican Administrations, have often participated in the sales by reading some of the submitted bids. The sales also provide a unique opportunity for members of the public, interested observers, and representatives of offshore bidders to meet together and to see and hear what companies were willing to pay for the opportunity to provide energy to people of the U.S.

To ensure transparency, the sealed bids are publically opened and announced. Therefore, there is no question of what the bids are and who submitted the bids. Members of the press, landmen, and interested spectators can keep notes on how much a particular company was willing to bid on a certain tract and how that compared to their competitors. The process was developed to generate the highest and fair market value to the U.S. taxpayer.

However, just submitting the highest bid is no guarantee of success. Every high bid is evaluated by Federal economists and market experts to ensure it represents fair market value. While the lease sale process has worked tremendously well, it does not mean that it cannot be improved by employing new technology. Unfortunately, the open, public and transparent process has also provided an opportunity for abuse, which we witnessed at the last Gulf of Mexico Central sale in March in New Orleans.

I recognize that hindsight is 20/20, but it appears to me that due to inadequate planning or poor communication, the lease sale that was held in March teetered on the verge of being a circus. As agency officials began to read the results of the bidding process, protesters situated near the podium began chanting loudly and attempted to bring the meeting to a halt. Before going any further, I want to commend the Department of the Interior and the Bureau of Ocean Energy Management for continuing to read the bids despite the disruption. However, that scene should never be repeated, and civil servants should not be placed in that situation again.

I fully support the right of those opposed to offshore lease sales to voice their opinion. That is a right we all have and it is guaranteed by the First Amendment. However, the government also has the right to be able to conduct its business as required by law, and spectators have a right to be able to hear and peaceably watch a lease sale. Those competing rights were not preserved or balanced at the last lease sale.

Instead of providing a place where the protesters could be seen and heard, but not disrupt the reading of the bids, they were afforded the opportunity to set up directly in front of the stage, and individuals were even allowed to engage in their protest on the stage. I also understand that

the microphone cord was either disconnected or cut. While the bids were still publicly read aloud by agency officials, no one could hear the results over the protesters' disruptions. Due to the disruptive behavior of the protesters, people vitally interested in hearing the bids were compelled to move further and further away from the stage, and most left long before the reading was over.

I do not believe the poor behavior of the protesters should be rewarded by discontinuing the current sale procedure, but that is certainly a factor to be considered in this evaluation. If technology provides a better way, then policymakers should consider making the change.

As you evaluate the pros and cons of an internet-based sale and reading process, I urge you to keep the following factors in mind:

- A lease sale process should be cost effective, transparent and secure. It is important that the public and potential bidders are able to determine exactly which tracts will be up for bid and how and when those bids are to be submitted.
- To promote competition, the submitted bids must be kept confidential until they are released to the public. Nothing will erode the public and bidder confidence faster than those submitted bids being leaked before being released to the public. As one of the many people who thought their personal information was secure in the arms of the federal government only to find it hacked on multiple occasions, I emphasize the importance of cyber security in this process.

In closing, I again applaud Congressman Graves and Congressman Lowenthal for bringing forward this common sense bill and thank the Subcommittee for considering it. It is important that the federal government looks for ways to improve processes in a manner that protects important government functions, ensures a good deal for taxpayers, and provides transparency, all while enhancing American energy security. I believe this bill accomplishes those goals. Thank you again for the opportunity to testify before your Subcommittee, and I would be happy to answer any questions.