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181 MARIOMI ROAD NEW CANAAN, CONNECTICUT USA 06840
PHONE: (203) 972-1130 FAX: (203) 972-6899
www.ammoniteresources.com

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Notes and Comments from G. Warfield "Skip" Hobbs regarding the.....

**MINERALS MANAGEMENT SERVICE
REGIONAL OCS MEETINGS - NORTH ATLANTIC**

*April 6, 2009
Atlantic City, New Jersey*

This was the first of four regional meetings concerning the 5-Year Plan for the Federal OCS. The hearing was chaired by Secretary of the Interior Frank Salazar; with Brenda Pierce, Energy Resources Program Coordinator, US Geological Survey; and Robert LaBelle, Deputy Assistant Director, Minerals Management Service. Government officials who were present and delivered prepared statements included: New Jersey Governor Jon Corzine (D); Rhode Island Governor, Don Carcieri (R); Sen. Robert Menendez (D-NJ); Rep. Frank Pallone, Jr. (D-NJ); Rep. Rush Holt (D-NJ); Rep. Frank LoBiondo (R-NJ); Rep Bob Bishop (R-UT). Government officials were also present, and later spoke, from Maine, Massachusetts, and New York.

The meeting was held in a conference room of the Atlantic City Convention Center, and was attended by – a rough estimate of perhaps 250 people. Nobody wore name tags, so it was difficult to say who was there. Many environmental groups were evident by the buttons they wore.

I drove 3 hours from Connecticut to Atlantic City, and registered to testify at 8:30 AM. I received witness number 48, which meant that I would testify late in the afternoon. Fortunately, there was a pleasant surprise in store for me.

The meeting began at 9:00 am with an introduction by Secretary Salazar as to the purpose of the hearings and the extension of the public comment period to 180 days. This was followed with PowerPoint presentations by USGS and MMS regarding the potential for offshore renewable energy (primarily wind), and hydrocarbon resources. USGS showed mean resource estimates using commodity prices of \$110/BO and \$11.74/mcf for estimates of "economically" recoverable resource estimates. A total of 3

billion barrels of oil and 22 TCF gas is estimated to be economically recoverable from the Atlantic OCS. Government officials then testified.

All elected officials who spoke were strongly opposed to drilling on the Atlantic OCS with the exception of Rep. Bishop from Utah. Reasons given for the opposition included: limited resource potential; not worth risk of environmental disaster threatening the \$38 billion/year tourism revenues from the New Jersey shore, and the 500,000 jobs tourism creates; limited oil and gas potential will not bring down prices at the pump, but instead poses huge risk to New Jersey economy; drilling not environmentally friendly; full effects of environmental impact on coastal communities not assessed; negative impact on New Jersey fisheries (#2 behind Bedford, MA); must end our dependence on oil by developing the huge wind energy resource instead; oil contributes to global warming; renewable energy will create more jobs; must begin transition to sustainable energy now; drill in the Gulf of Mexico where there are more reserves and existing infrastructure, and many undrilled leases. Sen Bob Menendez said that the oil industry should not be given more leases until they drill what they already have. Rep. Pallone was opposed to any further funding on the OCS, even for environmental studies, and said that he would introduce a bill to reinstate the OCS drilling moratorium.

There was then a 15 minute recess. I was able to chat briefly with Rep. Rush Holt, whom I had met during the Science, Engineering and Technology Congressional Visits Day last year. Holt asked me why the petroleum industry should be granted more leases when they hold so many undrilled leases. Before I could answer, we were interrupted by a New Jersey official, who needed to speak with Rep. Holt.

After the recess, Secretary Salazar said that he would select representatives of the public to deliver their comments and ask questions for an hour before the lunch break. Others would have the opportunity to testify to his staff up to 8:00 PM after lunch. Those who wanted to testify had prepared comment and question cards which noted names and addresses, when we registered. The Secretary had about 50 cards in his hand, and began to shuffle and sort through them as he stood at the lectern. The first speaker was not very articulate, and in fact, I am not sure what his point was. The second name called, was not in the room. The third name the Secretary called was "Skip Hobbs from New Canaan, Connecticut".

I was able to deliver my prepared speech in support of offshore drilling before the full house (although most of the elected officials departed during the break). The Secretary personally questioned me. I made the ad lib comment that drilling was not going to be off the Atlantic City Beach, but more than 100 miles out to sea. I also ad-libbed that it was the 31st well that discovered the Prudhoe Bay field. The Secretary said "then what you are saying, is that we will not know what is out there until we drill?" I replied yes, and closed with the statement that we can drill with no adverse environmental impact. When he questioned later witnesses, he asked them if it made any difference to their opposition, if the drilling was 100 miles out to sea. It did seem to make a difference to some.

Most of the speakers were from environmental groups, and naturally very opposed to offshore drilling. No one from the oil industry spoke before the lunch break.

Former Congressman John Peterson (R-PA) spoke in support of offshore drilling, as did an official from the American Trucking Association, and a lady from Pennsylvania. A representative of the Surfers Foundation delivered a petition that had been circulated online via the Facebook website, with 24,000 names of surfers opposed to offshore drilling – they said that they spend a lot of time in the water, and do not want to see the water fouled with oil. The surfer said that there was also a Facebook petition to support offshore drilling, and that it had five listed supporters. The president of a large private commercial fishing company also spoke against offshore oil development.

When the hearing broke for lunch, I was able to talk with Secretary Salazar. I thanked him for his very personal involvement in the hearing, and his questions to the witnesses. He is very approachable. Several people came up to me and thanked me for my comments in support of offshore drilling. Tim Charters, Staff Director-Republicans, House Subcommittee on Energy and Mineral Resources, asked me if I would be available to testify before his Congressional committee.

As I listened to the elected government officials and the members of the public speak, I made notes as to how the oil industry should better present our case to the public and Congress for offshore exploration and development of the OCS. Here are my thoughts:

- Opposition is often based on the small size of the projected resource, and how little its development will be in absolute terms. The industry should explain how undiscovered resources are estimated, and that the P10-P1 upside cases can actually occur. We don't really know what is there unless we do detailed geophysical and geological studies prior to drilling, and actually drill. Prudhoe Bay was discovered after 30 dry or non-commercial wells. The potential 15 billion barrels of Gulf of Mexico sub-salt resources in the Paleocene were unknown a decade ago. Shale resources plays are an entirely new concept- previously we viewed shale as a source rock and seal – not a reservoir. Thanks to new drilling and production technologies, and new thinking, the Barnett, and now the Haynesville shale, will be the largest gas fields in the country; yet a decade ago, they were not recognized. Has anyone considered the potential for unconventional plays on the OCS? The Canadians are developing the TCF Deep Panuke Gas Field offshore Nova Scotia that is in a reservoir that extends all the way to the Bahamas. The full potential of the Atlantic OCS is clearly unknown.
- The petroleum industry should emphasize the economic and strategic importance of the “incremental barrel of supply”; cite how even the loss of 200,000 BOPD out of a global supply of 85 million BOPD can impact prices (when economic times are good). Describe how production of 50,000 BOPD from a new offshore field backs out \$\$\$\$ imported oil.
- Debunk the statement that “its not worth drilling for just a few months of supply.” Explain that a new OCS play will be producing energy, providing jobs, and generating tax and royalty revenues for decades.

- Document how there has been no lasting pollution from offshore operations around the world. Sen. Bob Menendez cited the spillage of 7 million gallons of oil from the damage done by Hurricane Katrina. A representative of the Natural Resources Defense Council, and someone from Oceania, an oceans environmental group, said that we really don't know the cumulative biological impact of hydrocarbons in marine ecosystems. How can the industry respond to this?
- The industry must be sensitive to the tourism industry of the coastal states; but document that there has been no lasting impact where there is OCS activity. Make it very clear that OCS operations are typically far out to sea, and are not going to be seen from the shore and ruin the view. This appeared to make a difference to some at the Atlantic City hearings. I would have liked to point out that the Galveston and Corpus Christi beaches attract huge crowds, despite the fact that oil platforms are actually visible from the beach. One witness cited the fact that there is still oil on the shoreline in Alaska many years after the Exxon Valdez disaster. The offshore petroleum industry should present the public with a quantification of what spills have occurred from offshore platforms, vs. tankers, vs. recreational boaters!
- Talk about job creation. One person who testified, commented on OCS job creation by saying that he and his friends did not want to work for a "big oil company". The industry should explain exactly what kinds of new jobs are created when a new offshore play is created – independent trucking, warehousing, dockage, supply boats, helicopters; engineering, construction, electrical, communications, painting, catering, health contractors, et cetera. Be specific and quantify job creation from prior examples. The Nova Scotia and Newfoundland governments have done an excellent job in this regard. What percentage of the work force would actually be employed directly by the "Big" oil companies? Quantify the contributions of independent operators offshore.
- Explain why the industry holds so many undrilled leases.
- Explain that the fishing industry has not been negatively impacted by offshore operations. Cite Hibernia on the Grand Banks; fishing around platforms in the Gulf of Mexico.
- At a time when oil and gas prices are depressed, the USGS figures for economic recovery of undiscovered resources were estimated using \$110/BO and \$11.74/mcf. I doubt that the economic resource projections were perceived by the public as being credible. USGS and MMS should consider re-running the numbers using more current NYMEX futures.
- In a credible way, the petroleum industry should emphasize that by developing domestic energy resources on the OCS, we can reduce foreign oil and gas imports, help the economy by creating new jobs and reducing foreign exchange losses, and boost domestic security. The position should be supported with statistics from the EIA.

- Finally, the petroleum industry must be seen by the public as a strong supporter of renewable energy resources, and concerned about climate change. It should talk about the scale of renewables, present EIA data and graphs; quantify the numbers; and demonstrate, that fossil fuels will continue to be the bridge to sustainable energy for another generation, until the investment is made (quantify this) and the infrastructure is in place, to deliver significant sustainable energy resources to consumers.

My written testimony is attached.

Skip Hobbs

Managing Partner

Ammonite Resources Company

President

Ammonite Nova Scotia Corporation

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*April 6, 2009
Atlantic City, New Jersey*

Comments Submitted by:

G. Warfield Hobbs
181 Mariomi Road
New Canaan, CT 06840
(Tel: 203-972-1130)

My name is Skip Hobbs. I live in New Canaan, Connecticut, and have sailed and fished the North Atlantic waters since childhood. In my community, I am recognized as a leader on conservation and environmental issues. Being “green” and respecting the environment is very important to me. I am a professional petroleum geologist, and I am a past officer and member of the executive committees of the American Association of Petroleum Geologists, and of the American Geological Institute. I am also a member of the Independent Petroleum Association of America.

During my career, I have worked offshore in the North Sea, Indonesia, the North Atlantic, and in the Persian Gulf. I am currently the president and principal shareholder of Ammonite Nova Scotia Corporation, the holder of two large exploration licenses in the North Atlantic offshore Sable Island, Nova Scotia.

I support exploration on the Atlantic OCS. Renewed exploration and future production offshore the Mid-Atlantic and New England states will provide significant economic benefits; will help reduce foreign oil imports; and as history has demonstrated, will have no significant, negative environmental impacts.

Frankly, I am amazed that Americans are still debating the environmental perils of offshore oil and gas exploration and production. This is “old” news, which every other country, except the USA, has successfully solved, with minimal environmental impact. The United States consumes 25% of the world’s oil and natural gas, and imports 60% of our oil needs, yet we prohibit oil and gas exploration on most of our continental shelf, in areas where significant potential energy resources have been identified.

The oil industry has developed technologies that mitigate the impact of operations on the marine environment. Long reach drilling from a single platform, and subsea completions, mitigate the physical “footprint” of operations. Drilling can be done with non-toxic fluids, and drill cuttings can be back-hauled to shore. Subsurface shut-off valves prevent flow of any fluids should a platform be sheared off, as happened with recent hurricanes in the Gulf of Mexico, with no significant spills or lasting damage. Geophysical and drilling operations can be suspended during whale migrations.

The offshore petroleum industry now has a very strong environmental consciousness, which admittedly did not exist a generation ago. Despite the allegations of nay-sayers, the best fishing in the Gulf of Mexico is actually right around oil production platforms, as they create artificial reefs. Oysters love platform legs!

The economies of the United Kingdom and Norway, countries that are even more concerned about the environment than Americans, have boomed as a result of offshore petroleum exploration and development over the past 40 years. There has been no lasting negative environmental impact. On the South Coast of England, for example, beneath the Poole Harbor estuary, which is one of the most ecologically sensitive areas in England, BP produces the giant Wytch Farm oilfield. Modern technologies have made it possible to drill deep horizontal wells from a single production pad, to distances more than 7 miles beneath the estuary. Most visitors to the region have no clue that there is a major oil field beneath the spectacular seashore vista.

More than 190 miles offshore the Canadian province of Newfoundland, on the Grand Banks, a prime fishing ground, 350,000 BOPD are produced from the Hibernia, White Rose and Terra Nova oilfields. The petroleum industry has invested over \$21 billion in Newfoundland. This, together with job creation and royalty payments, has re-invigorated the Newfoundland economy. There have been no significant environmental mishaps in what is often called “ice-berg ally”.

In the North Atlantic, 120 miles offshore Nova Scotia, approximately 400 million cubic feet of natural gas are produced per day from the Sable Island Gas Field complex. Most of this gas is piped to New England where it is burned as “clean energy”, backing out coal and heating oil. Billions of dollars of economic activity have been generated by oil industry activities offshore Nova Scotia. More than CDN\$500 million in production royalties alone will be paid to the government of Nova Scotia in 2008-2009.

The Canadians have, with input from all stakeholders – the oil industry, fisheries, tourism, local industry, environmental advocates, and provincial and federal government, developed regulations that promote offshore petroleum development, protect the environment, and result in significant economic benefit for all citizens. US lawmakers and the MMS should take note of the Canadian regulatory model.

Wind, solar and geothermal energy currently supply less than 1% of US primary energy demand. Alternate energy resource development should be accelerated to reduce demand for imported hydrocarbons, and to reduce greenhouse gas emissions. However, we also must be realistic, and recognize, that as a practical matter, fossil fuels will rule for another generation.

The same age geological formations that are productive offshore Eastern Canada extend south along the USA continental margin.

We cannot ignore the potential domestic hydrocarbon resources identified by the US Geological Survey and MMS on the Atlantic OCS. The United States cannot drill itself to energy self sufficiency, but the potential “incremental barrel of supply” from the North Atlantic OCS, will have important economic and strategic consequences.

I urge the Department of the Interior to recommend to Congress that petroleum exploration and development be permitted on the Atlantic OCS, and that an orderly leasing schedule be established.

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