

STATEMENT OF GALE A. NORTON
SECRETARY OF THE INTERIOR
BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE ON ENERGY
AND WATER DEVELOPMENT
ON THE 2007 PRESIDENT'S BUDGET REQUEST

MARCH 8, 2006

Good afternoon. I am pleased to be here today to discuss the fiscal year 2007 budget for the Department of the Interior. I appreciate the opportunity to highlight our priorities and key goals.

The Department's broad, multi-faceted mission and geographically dispersed services and programs uniquely contribute to the fabric of America by maintaining and improving the Nation's natural and cultural resources, economic vitality, and community well being. Interior's 70,000 employees and 200,000 volunteers live and work in the communities, large and small, that they serve. They deliver programs through partnerships and cooperative relationships that engage and invite citizens, groups, and businesses to participate.

The challenges of our diverse responsibilities are many, but they are made more manageable through an integrated approach that defines common mission goals for all bureaus and offices. The Department's integrated strategic plan is key to this approach. The plan defines four mission categories, which include resource protection, resource use, recreation, and serving communities. Capabilities in partnerships, management, and science are at the foundation of the plan and weave throughout the four mission goals.

Although the details of the respective missions of Interior's bureaus and offices differ, the central focus is the same. A focus on excellent performance requires mission clarity, good metrics, and management excellence. Management excellence requires a focused approach to maintain and enhance program results, making wise management choices, routinely examining the effectiveness and efficiency of programs, finding effective means to coordinate and leverage resources, and the continuous introduction and evaluation of process and technology improvements.

The 2007 budget reflects the Department's commitment to these management strategies and management excellence.

Budget Overview

The 2007 budget request for current appropriations is \$10.5 billion. Permanent funding that becomes available as a result of existing legislation without further action by the Congress will provide an additional \$5.6 billion, for a total 2007 Interior budget of \$16.1 billion.

The 2007 current appropriations request is a decrease of \$392.2 million or 3.6 percent below the 2006 funding level. If emergency hurricane supplemental funding is not counted, the 2007 request is a decrease of \$321.9 million or 2.9 percent below the 2006 level.

The request for the Bureau of Reclamation and the Central Utah Project, funded in the Energy and Water Development Appropriations Act, is \$923.7 million. This request includes a net programmatic reduction of \$43.1 million, or 4.1 percent, from the 2006 funding level. It also includes the proposed cancellation of \$88.0 million in prior year balances of appropriations for the Desert Terminal Lakes program.

The 2007 Central Utah Project budget is \$40.2 million, an increase of \$6.1 million above the 2006 enacted level. The increase will maintain progress towards timely completion of the project. This funding level, if maintained in the out years, will allow the project to be completed by 2021.

2005 Hurricanes

In addition to the funds requested in the budget, on February 16, 2006, the President sent the Congress a supplemental funding request for hurricane recovery. The supplemental includes \$216 million for Interior agencies. Funding will be used to conduct clean-up and debris removal and repairs and reconstruction of facilities at park units, refuges, and USGS science facilities. These actions will allow us to open roads and trails to the public, repair visitor centers and exhibits, and reconstruct water control structures to host migratory bird populations and other wildlife. The supplemental also includes funding for MMS to complete restoration of its operations in New Orleans.

Departmental Programmatic Highlights

The 2007 budget maintains and improves performance across the Department's strategic goals to achieve healthy lands and water, thriving communities and dynamic economies throughout the Nation. Key goals for 2007 include:

- Enhancing America's energy supplies through responsible energy development and continued implementation of the Energy Policy Act;
- Building on successful partnerships across the country and expanding opportunities for conservation that leverage Federal investments;
- Continuing to advance trust reform;
- Coordinating existing efforts under a unified program that focuses on high-priority historic and cultural protection under the Preserve America umbrella;
- Preventing crises and conflicts over water in the West through Water 2025
- Continuing to reduce risks to communities and the environment from wildland fires; and
- Providing scientific information to advance knowledge of our surroundings.

Before turning this over to Commissioner John Keyes for a detailed discussion of our water programs in the Bureau of Reclamation, I want to highlight several aspects of the Interior Department budget.

Everglades

I want to commend the Subcommittee for its continued support of Everglades restoration efforts. The Department is both a steward, with specific mandates from Congress, and a partner, working with other agencies to restore and protect the South Florida ecosystem. The Department's highest priority in this effort is the completion of the Modified Water Deliveries project. Completion of this project is critical for the preservation and restoration of the resources at Everglades National Park. Furthermore, improved flows of water to the park will lay a strong foundation for future environmental benefits to be realized for the Everglades under the Comprehensive Everglades Restoration Plan.

The funding for the Modified Water project provided in 2006 with the strong support of the Subcommittee will complete the 8.5 Square Mile Area component of the project. Funding requested for 2007 in the budget of the National Park Service and the Corps Engineers will begin work on modification of the Tamiami Trail. As the Subcommittee is aware, the recently approved Revised General Reevaluation Report for the Tamiami Trail calls for a two-mile bridge to the west and one-mile bridge to the east. This approach will provide the necessary conveyance of water south from the Water Conservation Area 3B into the Northwest Shark River Slough section of the Everglades National Park.

Water 2025- Preventing crises and conflicts

The 2007 budget includes an increase of \$9.5 million for Water 2025, for a total funding level of \$14.5 million. I am pleased to report that the Administration has submitted legislation for the authorization necessary to accomplish the goals of this program.

The overarching goal of Water 2025 is to meet the challenge of preventing crises and conflicts over water in the West. Water 2025 will achieve this by increasing the certainty and flexibility of water supplies, diversifying water supplies, and preventing crises through added environmental benefits in many watersheds, rivers, and streams.

Competitive 50-50 Challenge Grant Program – The Challenge Grant program will remain an integral part of Water 2025 in 2007. In FY 2004 and again in FY 2005, the response to the program was overwhelming, with Reclamation receiving over 100 proposals for Challenge Grants each year. To date, Reclamation has awarded funding for 68 Challenge Grants in 16 states, including 62 projects by irrigation and water districts and 6 more by western states. The funded projects involve innovative approaches to improving water management through water marketing, water conservation, and modernizing water delivery systems. Collectively, these projects represent almost \$60

million in improvements in the west, including a non-Federal contribution of \$44 million and the Federal government contribution of \$15 million. In other words, for every dollar the Federal government has invested, there has been about \$2.90 non-Federal investment.

The projects selected for award through the Challenge Grant program in FY 2004 and FY 2005 include:

- 23 projects that, collectively, will convert 74 miles of dirt canals to pipeline.
- 44 projects to install water measurement devices, SCADA systems and automate water delivery systems.
- 11 projects that include water marketing plans.

Based on estimates in the project proposals, the 68 funded projects could save up to 285,000 acre feet per year, collectively, once fully implemented. An acre foot of water is enough to supply a family of four for up to a year.

The overwhelming response to the Challenge Grant Program underscores the significance of *Water 2025* to Western water users and proves the success of the Challenge Grant concept. The response to the Challenge Grant Program also demonstrates a widespread eagerness to improve the way water is managed across the West and to address local needs.

Examples of some of the funded Challenge Grant projects include:

Arizona: The Gila Gravity Main Canal Board, in partnership with the City of Yuma and NAD Bank, will make canal system improvements to conserve water, restore canal capacity and improve operation efficiency. Resulting water savings are estimated at up to 45,000 acre feet (af) of water per year. The conserved water will be available for other Colorado River users. The total project cost is \$2,207,775 with a *Water 2025* contribution of \$284,000.

California: The Calleguas Municipal Water District in Thousand Oaks will install automated monitoring devices to 23 water distributors to allow implementation of new rate structures encouraging more efficient water use, conservation of water, and better management of local groundwater supplies. This project will reduce demand on the Metropolitan Water District and the Colorado River and will save an estimated 5,500 acre feet per year. The total project cost is \$3,095,000, with a *Water 2025* contribution of \$300,000.

Idaho: The Preston Whitney Reservoir Company will replace 23,333 feet of open canal with PVC pipe and modify the works structure at Lamont Reservoir. The project is estimated to save 1,800 acre-feet of water per year. The total project cost is \$877,153, including the *Water 2025* contribution of \$300,000.

Montana: The Paradise Valley Irrigation District will replace 9,000 feet of leaky canal with a pressure pipeline system that will conserve 1,000 acre feet of water per year. It will be one of the first pressurized systems in the area and a

significant improvement over the old system. This project will conserve water for the District by eliminating seepage in the canal and improve operation and control in the main canal. Efficiency levels will reach nearly 100 percent with the new pipeline system, compared to the current efficiency rate of 40–45 percent. Irrigation seasons will be extended during drought years by making more use of the water that is available. The total project cost is \$524,215, with a Water 2025 contribution of \$262,107.

New Mexico: The state of New Mexico will rehabilitate a USGS streamflow gage on the Pecos River to provide more accurate high streamflow measurements. The gage will help better measure water under high flow conditions. Accurate measurement of water delivered to Texas under the Pecos River Compact is critical to the state. The total project will cost \$146,660 with a Water 2025 contribution of \$59,480.

Oregon: The Central Oregon Irrigation District in Bend Oregon will collaborate with numerous partners – seven irrigation districts, six cities, three tribes, and the Deschutes Resource Conservancy – to address long-term basin water needs by establishing a pilot water bank. This project has a long-term potential savings of up to 326,522 acre feet a year. The project demonstrates collective partnering of basin interests and addresses many institutional constraints. The total cost of the project is \$588,750, with a *Water 2025* contribution of \$233,750.

Texas: The District will purchase and install 225 on-farm delivery site meters for more precise water measurement and efficient water delivery. The saved water – 3,464 acre feet per year – will enable continued farming during droughts and increase the length of the irrigation season. On-farm metering will help the District achieve its goal of 100 percent volumetric pricing of water delivered to its users. The total cost of the project is \$602,500, with a *Water 2025* contribution of \$300,000.

Utah: The Sevier River Water Users Association in Utah will expand and enhance their real-time monitoring and control system to better manage water deliveries. The project is estimated to save up to 22,500 acre-feet of water.

Water System Optimization Reviews —The fiscal, legal, and political hurdles to the development of significant new supplies make it imperative that existing water supply infrastructure be fully utilized within the framework of existing treaties, interstate compacts, water rights, and contracts. Reclamation will work with willing States, irrigation and water districts, and other local entities to assess the potential for water management improvements in a given basin or district. Potential actions identified in these reviews may form the basis for future Water 2025 cooperative grant proposals.

Improved Water Purification Technology — We can make better use of existing water supplies that may have limited use due to high salt or mineral contents, or which may be otherwise unsuitable for consumptive use. Lowering the cost of desalination is one of the

key tools to managing scarce water resources because of the potential it offers to expand usable water supplies. A portion of the funding requested will be used to award competitive, cost-shared research and development cooperative agreements that focus on inland brackish ground waters, energy efficiencies, and management of concentrates.

A majority of the funding requested for this component will support operations and research and development conducted at the Tularosa Basin National Desalination Research Facility, which is proposed to be re-named the Brackish Groundwater National Desalination Research Facility and scheduled to be operational in 2007. The budget request includes funds for start-up operations, including hiring an external organization to operate the facility under Reclamation direction and starting initial research and development.

Klamath River Basin

The Klamath River Basin demonstrates our ability to work across the landscape cooperatively to accomplish our goals. The 2007 budget includes \$63.4 million for Klamath Basin restoration activities. This is an increase of \$7.8 million and, with funds available in 2006, will be used to restore streams and wetlands in the upstream and downstream reaches of the Klamath River and its tributaries.

The Reclamation budget request of \$32.2 million provides funding for studies and initiatives related to improving water supplies to meet the competing demands of agricultural, tribal, wildlife refuge, and environmental needs in the Klamath River Basin.

- The request includes an increase of \$2.4 million for investigations to increase water storage/ conserve water, an increase of 132 percent from 2006, for a total funding level of \$4.2 million.
- The request includes an increase of \$982,000, for total funding of \$8.7 million to address ESA requirements including fish screens, passage, and ladders.
- The balance of the funding increase is spread across various components of the Klamath Project, primarily water quality studies and operations and maintenance.

In 2007, through its Partners for Fish and Wildlife program, FWS will begin a new \$2.0 million Lower Klamath Basin initiative. Funding will be used to provide fish passage on tributaries; fencing for riparian areas along streams; assessment and monitoring of disease, particularly in juvenile fish; and restoration of stream channels from former mining excavations. The 2007 budget also includes \$3.5 million to acquire and restore agricultural lands adjacent to Upper Klamath Lake to provide quality habitat for larval and juvenile suckers and a host of native waterbirds, improve water quality for the lake and downstream anadromous fish, and increase water storage in the lake.

Addressing Other Departmental Changes

For the record, I would like to call the attention of the Subcommittee to proposals requested in the President's Budget for programs funding in the Interior, Environment and Related Agencies Appropriations Act. The budget continues to emphasize our operating programs, including those for the National Park Service, leveraging of Federal Resources through cooperative conservation; continued progress on Indian Trust reform; and increasing access to renewable and non-renewable energy sources, while enhancing environmental monitoring and protection. Some details of our energy proposals follow.

Energy Development

The Department's energy programs play a critical role in providing access to domestic oil, gas, and other energy resources. To enhance domestic production, the 2007 budget proposes a \$43.2 million initiative to implement the Energy Policy Act of 2005 and continue progress on the President's National Energy Policy. In total, the budget includes \$467.5 million for the Department's energy programs.

APD Processing — In 2003, the Department released an Energy Policy and Conservation Act mandated report identifying five basins in Montana, Wyoming, Utah, Colorado, and New Mexico as containing the largest onshore reserves of natural gas in the country and the second largest resource base after the Outer Continental Shelf. These onshore basins contain an estimated 139 trillion cubic feet of natural gas, enough to heat 55 million homes for almost 30 years. These resources offer the best opportunity to augment domestic energy supplies in the short term.

Before any leasing for oil and gas production can occur on the public lands in these areas, BLM must have a land-use plan in place. Beginning in 2001, with the support of Congress, BLM initiated the largest effort in its history to revise or amend all of 162 resource management plans. Within areas designated in plans as appropriate for mineral development, BLM has made a concerted effort to help bring additional oil and gas supplies to market. In 2002, 2.1 Tcf were produced from Federal, non-Indian lands. In 2003 and 2004, 2.2 Tcf and 3.1 Tcf, respectively, were produced from these lands.

The BLM is experiencing a steady increase in the demand for drilling permits. In 2000, BLM received 3,977 applications for permits to drill. In 2005, BLM received 8,351 APDs. The bureau estimates that the number it will receive in 2006 will exceed 9,000, more than double the number processed five years ago. To address this demand, BLM has taken steps to ensure that drilling permit applications are processed promptly, while at the same time ensuring that environmental protections are fully addressed. These measures, along with increased funding, have allowed BLM to make significant progress in acting on permit applications. In 2005, BLM processed 7,736 applications, nearly 4,000 more than it was able to process in 2000.

Section 365 of the Energy Policy Act established a pilot program at seven BLM field offices that currently handle 70 percent of the drilling permit application workload. The pilot program is testing new management strategies designed to further improve the efficiency of processing permit applications. The Energy Policy Act provides enhanced funding for the pilot offices from oil and gas rental receipts. With more efficient processes and authorities and funding provided through Section 365, BLM currently anticipates processing 10,160 permits in 2006.

The efforts of BLM have achieved significant results. Almost 4,700 new onshore wells were started in 2005. This level of activity is 56 percent higher than in 2002.

For 2007, the budget proposes an increase of \$9.2 million to focus on the oil and gas workload in BLM's non-pilot offices, which are also experiencing a sharp and sustained demand for APDs. This increase will provide \$4.3 million for drilling permit processing and \$2.8 million for inspection and enforcement activities. It will also provide \$2.1 million for energy monitoring activities. The budget also includes \$471,000 for FWS to increase consultation work with the non-pilot offices.

The budget assumes continuation through 2007 of the enhanced funding for pilot offices from oil and gas receipts to facilitate a smooth transition to funding from drilling permit processing fees, effective September 30, 2007. Legislation to be proposed by the Administration will allow a rulemaking to phase in full cost recovery for APDs, beginning with a fee amount that will generate an estimated \$20 million in 2008, fully replacing the amount provided by the Energy Policy Act.

Alaska North Slope — The most promising area for significant long-term oil discoveries and dramatic gains in domestic production in the United States is the Alaska North Slope. The U.S. Geological Survey estimates a 95 percent probability that at least 5.7 billion barrels of technically recoverable undiscovered oil are in the ANWR coastal plain and five percent probability of at least 16 billion barrels. They estimate the mean or expected value is 10.36 billion barrels of technically recoverable undiscovered oil. At \$55 a barrel, more than 90 percent of the assessed technically recoverable resource estimate is thought to be economically viable. At peak production, ANWR could produce about one billion barrels of oil a day, about 20 percent of our domestic daily production and more oil than any other State, including Texas and Louisiana.

The 2007 budget assumes the Congress will enact legislation in 2006 to open ANWR to energy exploration and development with a first lease sale held in 2008 and a second in 2010. The budget estimates that these two lease sales will generate a combined \$8.0 billion bonus revenues, including \$7.0 billion from the 2008 lease sale.

The 2007 budget includes an increase of \$12.4 million for BLM energy management activities on the Alaska North Slope. The additional funds will support the required environmental analyses and other preparatory work in advance of a first ANWR lease sale in 2008. The requested increase will also support BLM's leasing, inspection, and monitoring program in the National Petroleum Reserve-Alaska and BLM's participation

in the North Slope Science Initiative authorized by the Energy Policy Act. In addition, a significant share of the \$12.4 million increase will be used by BLM to respond to the environmental threat posed by abandoned legacy wells and related infrastructure on the North Slope.

Outer Continental Shelf Development — Deepwater areas of the Gulf of Mexico currently account for 17 percent of domestic oil and six percent of domestic gas production. However, over the next decade, oil production in the Gulf is expected to increase by 43 percent and natural gas by 13 percent. The increase will come from deepwater and greater depths below the ocean floor. The 2007 budget includes an increase of \$2.1 million for OCS development, to allow MMS to keep pace with the surge in exploration and development in the deepwater areas of the Gulf and \$1.5 million for OCS environmental impact statements on future lease sales.

New Innovations in Energy Development – The 2007 budget includes an increase of \$6.5 million for MMS’s new responsibilities under the Energy Policy Act for offshore renewable energy development. MMS will establish a comprehensive program for regulatory oversight of new and innovative renewable energy projects on the OCS, including four alternative energy projects for which permit applications were previously under review by the U.S. Army Corps of Engineers.

Oil shale resources represent an abundant energy source that could contribute significantly to the Nation’s domestic energy supply. Oil shale underlying a total area of 16,000 square miles in Colorado, Utah, and Wyoming represents the largest known concentration of oil shale in the world. This area may contain in place the equivalent of 1.2 to 2 trillion barrels of oil. The budget proposes a \$3.3 million increase, for a total program of \$4.3 million, to enable BLM to accelerate implementation of an oil shale development program leading to a commercial leasing program by the end of 2008, in compliance with section 369 of the Energy Policy Act. This request is accompanied by \$500,000 budgeted for USGS to determine the size, quality, and quantity of oil shale deposits in the United States.

Gas hydrates, found in some of the world’s most remote regions such as the Arctic and deepwater oceans, could dramatically alter the global balance of world energy supply. The estimated volume of natural gas occurring in hydrate form is immense, possibly exceeding the combined value of all other fossil fuels.

The 2007 budget includes a \$1.9 million package of increases for gas hydrate research and development by MMS, BLM, and USGS. This will fund a coordinated effort in the Gulf of Mexico and the North Slope of Alaska to accelerate research, resource modeling, assessment, and characterization of hydrates as a commercially viable source of energy.

Conclusion

The budget plays a key role in advancing our vision of healthy lands, thriving communities, and dynamic economies. Behind these numbers lie people, places, and partnerships. Our goals become reality through the energy and creativity efforts of our employees, volunteers, and partners. They provide the foundation for achieving the goals highlighted in our 2007 budget. This concludes my overview of the 2007 budget proposal for the Department of the Interior and my written statement. I will be happy to answer any questions that you may have.