



Statement Prepared for the Energy and Environment Subcommittee of the U.S. House Energy and Commerce Committee: “Drilling Down on America’s Energy Future: Safety, Security and Clean Energy”

June 15, 2010 — Chairman Markey, Ranking Member Upton, members of the committee, my name is John Watson, and I am Chairman and CEO of Chevron Corporation.

Chevron is America’s second-largest energy company, and we are one of the largest leaseholders and producers in the Outer Continental Shelf in the Gulf of Mexico. Our 27,000 U.S. employees and our 32,000 employees elsewhere in the world take pride in the work we do to bring the world the energy it needs.

As we meet today, the tragedy in the Gulf of Mexico continues to unfold. Our thoughts are with the families who have lost loved ones, the workers who were injured and the communities who are dealing with the impacts of this accident.

For Chevron, this tragedy is very personal. Many of our employees in the Gulf of Mexico knew the people who died or were injured in the Deepwater Horizon accident. We have more than 13,000 employees who live and work in the Gulf region. We have a personal stake in operating safely on the Gulf Coast: It is our home, too.

For our industry, this experience is humbling. We operate based on an expectation we share with the American people: the energy that we need will be produced safely and reliably. That did not happen here. Now, it is imperative for our industry to step up and restore our country’s confidence in the safety of drilling operations. We strongly believe that responsible deepwater development must continue: America needs the energy. And we can produce that energy safely — including in the deep water.

Immediately after the Deepwater Horizon accident, we provided our full support to the response. We deployed Chevron experts to assist BP and to advise the U.S. Coast Guard on marine transportation planning. We also have been working with communities and organization across the Gulf region.

Chevron helped lead the Joint Industry Task Force, which made recommendations to the Department of the Interior to raise industry drilling standards to an even higher level. Chevron already uses many of these new proposed standards.

Within a few hours of the Deepwater Horizon accident, Chevron held safety briefings on our rigs around the world, reviewing drilling processes and procedures. We examined blowout contingency plans across our global operations. We scrutinized our drilling and completion policies. We reinforced our own safety practices, which include what we call “stop work” authority — the responsibility of any employee or contractor to stop work immediately if they see anything unsafe. All our people clearly understand they have that authority. They take it very seriously, and they do stop work. We reward people who exercise stop work authority, to underscore both its importance and our aim to confront any problem right then and there. After the accident, we also reaffirmed with our entire global drilling network the standing requirement to them, and to every member of Chevron’s global workforce: take the time to do things right or not at all.

Chevron’s drilling policies and procedures are rigorous. We require continuous training and the certifications necessary for qualified drilling personnel. Certifications cover procedures to manage unusual circumstances and the means to verify that contractors involved in drilling wells possess the skills necessary to execute well control.

Our internal review immediately following the Deepwater Horizon accident confirmed what our systematic ongoing reviews tell us: Chevron’s drilling and control practices for deepwater wells are safe and environmentally sound. But — we operate with the belief that we can always learn and improve and we do. This belief is reflected in an enduring commitment to continuously improve our performance and keep safety ingrained in every aspect of Chevron’s DNA.

Chevron’s Operational Excellence Management System (OEMS) is how we systematically manage safety, health, the environment, reliability and efficiency across our daily operations around the world. With OEMS, we systematically audit our procedures to assure compliance, identify and reduce risk of incidents, ensure preparedness for emergency response and improve overall performance.

Providing the critical energy supplies our country needs is a responsibility we take very seriously. We dedicate our careers to mitigating our industry's risks with the paramount goal that each of us returns home safe every day. For a safety culture to take hold, it comes down to people. So we challenge every Chevron employee and contractor, from the newest hire on up, to take personal responsibility for their own safety — and the safety of those around them.

Chevron's commitment to safety is fundamental to who we are. It was fundamental to who we were before the Deepwater Horizon accident, and it will continue to define us in the years ahead. So we welcome any new standards, safeguards and oversight that will help prevent future accidents.

Today, we are all working to understand the underlying causes of this tragedy. We must act to quickly implement new standards and safeguards so that we can reinstate drilling in the deepwater Gulf of Mexico. We must get people back to work developing the energy America needs — the resulting jobs and energy are especially important in this fragile economy.

For the last two years — and for the first time since 1970 — U.S. crude output has increased for one reason: deepwater development in the Gulf of Mexico.

Production in the Outer Continental Shelf (OCS) — almost all of which is in the Gulf of Mexico — currently accounts for 15 percent of the nation's natural gas. Production in the Gulf of Mexico accounts for 27 percent of our nation's domestic supply of oil.

The ramp-up of new deepwater projects in the Gulf eases dependence on imports and strengthens America's energy security. That positive dynamic will only increase. According to Wood Mackenzie, U.S. Gulf of Mexico deepwater oil and natural gas production is forecast to account for a third of total U.S. production and nearly 95 percent of total offshore production by 2020.

Along with vital energy, Gulf of Mexico production provides significant jobs, economic development and revenue. Wood Mackenzie estimates that a six-month moratorium on new drilling would defer or lose 80,000 barrels of oil a day in the first year. That would also translate into a reduction of up to \$500 million in royalties and taxes. The moratorium will likely draw drilling rigs away from the Gulf of Mexico to overseas basins, further delaying development and negatively affecting crucial U.S. jobs that support these operations. Any extension of the moratorium will only exacerbate the economic consequences. The Louisiana Department of Economic Development estimates that with the active drilling suspension, within a few months time, more than 10,000 jobs could be lost—in Louisiana alone.¹

For the first time in two years, global oil demand is expected to resume growth as economies recover from the economic downturn. The return of rising demand for oil underscores the need to encourage high levels of investment in energy supply at home and abroad. This investment is imperative to sustain economic recovery and avoid the supply-demand imbalance that led to high energy prices in 2008.

At the same time, we need to maintain a long-term perspective and do all we can to develop all forms of energy for the foreseeable future. This includes a sharpened focus on alternatives and renewables, even as we continue to develop our domestic oil and gas resources. This also includes conventional and unconventional gas that have the possibility to dramatically expand our domestic energy supplies. Moreover, a portfolio approach to energy development must begin with a focus on energy efficiency. We need to become a nation of energy savers. Energy efficiency remains the easiest, cheapest and most reliable form of "new" energy available. It helps moderate demand for carbon-intensive fuels, reduce energy costs and preserve finite natural resources.

¹ The Louisiana Department of Economic Development estimates that the active drilling suspension alone will result in a loss of 3,000 to 6,000 Louisiana jobs in the next 2-3 weeks and potentially over 10,000 Louisiana jobs within a few months. If the suspension of active drilling activity continues for an extended period, LED estimates that the state risks losing more than 20,000 existing and potential new Louisiana jobs in the next 12-18 months.

Energy consumption—primarily through electricity generation and transportation—is currently the largest contributor of greenhouse gas emissions. The potential benefits of reducing energy demand through conservation and efficiency are substantial: a 20 percent improvement in U.S. energy efficiency could result in saving the equivalent of 10 million barrels of oil and reducing 1.5 billion metric tons of CO₂ emissions per year.

For Chevron, conservation is an important business strategy and we are now in our 19th year of reducing our own energy use—by 30 percent since 1992. We're also in the business of helping others improve energy efficiency. Chevron Energy Solutions (CES) is one of the largest energy services companies in the U.S., helping customers increase energy efficiency, reduce energy use and integrate distributed renewable power.

We are making progress in the area of transportation emissions. The EPA projects the 2012-2016 combined tailpipe emissions and fuel economy standards for light-duty vehicles developed by the EPA and NHTSA will, over the lifetime of the vehicles sold during that period, cut U.S. auto emissions by 21 percent by 2030, and save 1.8 billion barrels of oil.

Diversification of fuels is another important step. Chevron supports the role of cellulosic biofuels, which do not undermine the food supply. Cellulosic biofuels and other bio-hydrocarbon fuels will play an increasing role in the future energy mix. However, their availability at scale in the near future is not assured.

Even with the most aggressive scenarios for efficiency and the development of alternatives, the sheer scale of the world's growing demand for energy points to an inescapable fact: The world will need a steady supply of oil and natural gas for decades to come.

This is why responsible, environmentally sound exploration and production of America's vast energy resources is vital. In the short term, it will help spur America's economic recovery. Over the long term, it will sustain our economic competitiveness. Every additional barrel produced here at home reduces our dependence on imported energy. Every additional barrel produced here keeps American jobs and dollars at home.

Our industry already provides good jobs to 2.1 million Americans directly and another 7 million indirectly. Developing the Outer Continental Shelf and other areas that are presently off-limits could create 160,000 new jobs — and provide up to \$1.7 trillion of additional government revenue.

We know that our license to operate in the important deepwater areas of the Outer Continental Shelf depends upon a proven capability to operate safely and in an environmentally sound manner. When you operate at the frontiers of geology, under incredible extremes in temperature, pressure and water depths, best practices must be your only practices.

For these reasons, we support the detailed recommendations made by the Joint Industry Task Force to improve the safety of offshore operations. As I mentioned earlier, Chevron already uses many of these practices. We are operating with the highest standards of safety and environmental stewardship, and we will comply with all new requirements. Additionally, we're committed to work with the president's independent investigative commission. We believe this commission can provide answers and recommendations to further improve safety. We'll contribute in every way we can, and take a rigorous look at improving and strengthening operating standards.

It's important to keep in mind that, as tragic and significant as this incident is, it occurred in an industry with a strong record for safety and environmental protection. Our nation would lose more than it has already if this single incident became the basis for scaling back or shutting down the many positive benefits of offshore development in the Gulf of Mexico and elsewhere – the jobs, the economic development, the revenue, and the increased flexibility of America's energy supply.

We all know that actions speak louder than words. Chevron's top priority over the coming days, weeks and months will be to demonstrate to you, your colleagues and the American public that we understand that we operate by public permission. We understand that we're given this permission in order to advance another great public interest: supplying the energy that drives economic growth, keeps Americans working, and makes our country stronger and more secure.

At Chevron, everything we do begins with our fundamental commitment to safety. The Deepwater Horizon accident tragically reinforces that all companies must operate with the same high standards of safety and reliability. It is clear that failure to do so has dire consequences. I believe the independent investigation will show that this tragedy was preventable.

We must learn from it and make sure that it never happens again. Chevron's commitment to you is that we will do everything in our power to see that it doesn't.