Statement by Jeffrey B. Hume
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Chairman Wyden, Ranking Member Murkowski and Members of the Committee, my name is Jeff Hume. I serve as Vice Chairman of Strategic Growth Initiatives for Continental Resources, an Oklahoma City-based independent oil and gas producer where I have worked for the past 30 years. It's an honor to address you on the important subject matter at hand. Hopefully my testimony today will provide more insight on the chapters our company and other independent producers are writing in this amazing domestic energy turnaround story.

Just to clear one thing up before we get started, I noticed in the purpose statement for this oversight meeting that the word "boom" is used to describe the current growth in U.S. domestic oil production. Indeed, total petroleum liquids production in our country has accelerated tremendously in recent years. In fact, the U.S. has recently surpassed Russia and is running neck to neck with Saudi Arabia in the rankings as the world's largest producer of petroleum liquids.[1] However, often times when I hear the word "boom," it's used in reference to an era like the dot-com bubble or some other wild business cycle that inevitably ended in a "bust." This just is not the case with respect to the recent gains in U.S. oil production.

A much more accurate way to describe the current rise in domestic production would be to use the word "renaissance," as this remarkable "re-birth" of the U.S. onshore oil industry is being driven by sustainable technological developments such as horizontal drilling. These revolutionary advancements have enabled companies like Continental Resources to unlock vast resource plays located deep underground, and produce oil from formations that were previously inaccessible using traditional methods. And, the best news of all is that this 21st century "renaissance" is moving us closer to the goal of North American energy independence. When we reach this goal - and are no longer an energy "debtor" nation - we will have bolstered national security, fortified our leadership position at the global negotiating table, and provided Americans with much-needed relief in the form of high-paying job opportunities and savings at the pump.

The Company:

Our Company was established as a small business in 1967 by Harold Hamm, with assets consisting of a single pump-truck and one employee in search of the American dream. From these humble beginnings, Continental Resources has grown to become the largest producer and leaseholder in the massive Bakken oil play in North Dakota/Montana and one of the Top 10

[1] Source: EIA International Energy Statistics. Production of Crude Oil, NGPL, and Other Liquids in 2012. http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=55&aid=1&cid=regions&syid=2012&eyid=2012&unit=TBPD. Accessed July 11, 2013.

producers of petroleum liquids in the United States. In addition to the Bakken, Continental has operations in several other states including Oklahoma, South Dakota and Colorado.

The same entrepreneurial spirit and "can do" attitude on which Continental Resources was founded remains ingrained in our company culture. Today, our well-site teams can literally drill two miles straight down, shift to horizontal mode, drill another two to three miles sideways, and hit a target the size of a loaf of bread. Yes, these truly are exciting times in the energy business. Each day at Continental, we witness the assumptions underlying "peak oil" theories crumble under the power of creative minds and pioneering technology.

At Continental, this same ingenuity is being used to improve workplace safety and reduce the environmental impact of our activities. We pioneered the use of ECO-Pads®, a design in which multiple horizontal wells are completed from a single drilling pad to work around sensitive areas and reduce our surface footprint. This type of drilling is typically more expensive than conventional vertical techniques, but as a result we have fewer rig movements and our operations end up being much less intrusive.

Continental Resources' success in discovering and developing light-tight shale oil plays around the country has not only lessened our Nation's dependence on foreign oil, but just as importantly, it has helped stimulate our domestic economy by creating high-paying jobs for Americans and adding tax revenue at multiple levels of government. According to the *Bureau of Labor Statistics*, the unemployment rates in North Dakota and Oklahoma, the two states where our Company is most active, were the lowest and fifth lowest nationally in 2012.[2]

The Current Market:

Today, crude oil is indisputably a global commodity. Our Nation and the world have changed remarkably since U.S. crude oil export restrictions were enacted in the 1970's. The conditions that originally justified the establishment of "Short Supply Controls" in the wake of the *1973 Arab Oil Embargo* are no longer indicative of how petroleum supply and distribution channels function. It is now common to see oilfields in nearly every continent being jointly developed by companies from multiple countries. This broad-based international ownership structure greatly diminishes the likelihood of future oil embargos crippling our Nation and economy, as the political interests of the producers are diverse.

During this same period, the refining industry has evolved significantly. Every oil refinery in the U.S., or the world for that matter, is configured differently. At inception, each facility was designed and constructed to efficiently process a base slate of one or more foreign or domestic crude oil grades, often times sourced locally or from affiliated fields overseas. However, over the years, as refinery crude supplies, product price differentials and environmental regulations

[2]2012 data sourced from the Bureau of Labor Statistics' "Regional and State Unemployment (Annual) News Release." http://www.bls.gov/news.release/srgune.htm. Accessed July 11, 2013.

changed, units were added or mothballed in response to prevailing and forecasted economic conditions. The current "restructuring of the U.S. refining and distribution system" mentioned in this hearing's purpose statement is a good example of this.

As an American, I'm proud to say the U.S. has some of the most sophisticated and complex refineries in the world. Billions of dollars of investments have enabled our domestic industry to efficiently convert lower-priced heavy-sour crude oil and bitumen imports into low-sulfur fuels. But as Chairman Wyden noted in his March 2013 letter to the EIA, efficiency gains and growth in aggregate U.S. refining capacity have been accompanied by a nearly 25% reduction in the number of refineries in operation over the past decade.[3] This has resulted in a greater marginal impact of a single domestic refinery on the supply of gasoline. Planned maintenance "turnarounds" as well as unplanned weather-related events are now more impactful than ever.

Looking Ahead:

In today's environment, two good ways to lower the prices Americans pay for gasoline and fuels are to support additional domestic production on both private and government lands and to find creative ways to make supply and distribution chains more efficient.

Supporting a strong domestic oil production industry is critical for the health of our economy, as it creates jobs and produces a valuable product for consumption or export. It is this growth in production activity over the past several years that has contributed to a drop in U.S. reliance on imported oil.[4] It has also added high-paying jobs and spurred production in the Nation's large petrochemical industry. Supporting this point, a report issued in October 2012 by IHS Global Insight[5] found that:

- Employment attributed to upstream unconventional oil and natural gas activity will support more than 1.7 million jobs in 2012, growing to some 2.5 million jobs in 2015, 3 million jobs in 2020 and 3.5 million jobs in 2035.
- In 2012, unconventional oil and natural gas activity will contribute nearly $62 billion in federal, state, and local tax receipts. By 2020, total government revenues will grow to just over $111 billion. On a cumulative basis, unconventional oil and natural gas activity will generate more than $2.5 trillion in tax revenues between 2012 and 2035.

Not only are these factors positive economically, but from a national security standpoint, supporting domestic oil production is beneficial because it enables us to control our sources and

[3] Chairman Wyden letter to Adam Sieminski of the EIA dated March 11, 2013. http://www.energy.senate.gov/public/index.cfm/2013/3/wyden-asks-eia-for-gasoline-market-data-to-explain-recent-price-spike. Accessed July 11, 2013. References Antony Andrews, et al., *The U.S. Oil Refining Industry: Background in Changing Markets and Fuel Policies*, Congressional Research Service, December 2012.

[4] Bureau of Economic Analysis, "U.S. Trade in Goods (IDS-0182)." Accessed July 12, 2013.

[5] Source: IHS. "Unconventional Oil and Gas Production Supports More Than 1.7 Million U.S. Jobs Today; Will Support 3 Million by the End of the Decade, IHS Study Finds," October 23, 2012. http://press.ihs.com/press-release/commodities-pricing-cost/unconventional-oil-and-gas-production-supports-more-17-millio. Accessed July 12, 2013.

uses of petroleum in a moment of crisis and decreases the likelihood of being drawn into future regional conflicts in geopolitically unstable, petroleum-exporting areas.

It's worth noting, however, that the energy business is very capital intensive, and these figures just mentioned are predicated upon the maintaining of current legislation. Without current law regarding intangible drilling costs (IDCs) and percentage depletion,[6] producers would not be able to generate the capital necessary for the continued growth in domestic drilling and production activity. A recent study by Woods Mackenzie[7] suggests that repealing producers' deduction for IDCs in 2014 could result in a 15-20% drop in annual domestic drilling, meanwhile curtailing over $400 billion of investment from 2014 to 2023. Consequently, 65,000 jobs per year would be lost in the oil and gas industry. To me, those figures provide powerful evidence for the need to maintain support of the oil and gas industry as a very positive contributor to our economy and American way of life.

I'd also like to mention briefly the role of trade restrictions in our business. In today's global economy, it no longer makes sense for our country to cling to regulatory relics from bygone eras that restrict the export of domestic crude oil. The U.S. government does not restrict the export of gasoline or refined fuels or other domestic energy sources such as coal; in fact, 2011 marked the first time in over 60 years that the U.S. was a net exporter of fuels.[8] Hard-working Americans and businesses would be much better served if our government would take steps to remove the existing barriers that distort domestic oil markets and provide disincentives for incremental domestic production.

Since much of the domestic light-tight crude oil grades like Bakken that are contributing to the U.S. energy "renaissance" are very high quality, they are actually processed most efficiently at less complex refineries that are specifically designed to handle these low-sulfur grades. Following the restructuring of the U.S. refining industry, many less-complex refineries best suited to efficiently process our domestic, high-grade crude are located overseas. Matching the various grades of crude oil with the refineries best able to process them maximizes the available supply of refined product. By exporting our high-quality domestic crude to the overseas refiners whom value it most – refiners in Free Trade Partner countries like Japan and South Korea[9] that

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[6] IDCs represent typical and ordinary business expenses within the oil and gas industry. This provision is not a tax subsidy or loophole. IDCs permit a portion of the costs of drilling a well to be deducted fully in the year those costs are incurred, rather than being capitalized over several years. Percentage depletion is akin to typical depletion taken by other industries, except that the depletion is available throughout the economic life of a well because of the depleting nature of oil and gas.

[7] Study by Woods Mackenzie for the American Petroleum Institute. "Study: 190,000 Jobs Lost in First Year if Drilling Cost Deduction Is Repealed." http://www.api.org/news-and-media/news/newsitems/2013/july-2013/study-190000-jobs-lost-in-first-year-if-drilling-cost-deduction-is-repealed. Accessed July 12, 2013.

[8] Barbara Powell, "U.S. Was Net Oil-Product Exporter for First Time Since 1949," Bloomberg article dated February 29, 2012. http://www.bloomberg.com/news/2012-02-29/u-s-was-net-oil-product-exporter-in-2011.html. Accessed July 12, 2013.

[9] In 2012, we imported 68 thousand barrels per day of refined product from these two countries. Source: EIA Data, "U.S. Imports by Country of Origin," http://www.eia.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbblpd_a.htm. Accessed July 12, 2013.

have struggled to source crude oil in the wake of Iranian sanctions – we can reduce our trade deficit while also increasing the fuel supplies the American consumer requires. To reduce costs at the pump and on the monthly heating and cooling bills, it makes economic sense to let the marketplace, not the Federal Government, determine where these barrels should be processed.

Conclusion:

In conclusion, I would like to reiterate that maintaining your support for the industry and opening borders for crude oil export will:

1. Lower energy costs to American consumers and businesses.
2. Promote job growth in the domestic energy sector.
3. Improve our Nation's balance of trade position.
4. Raise tax revenue through GDP growth.
5. Improve National security and global influence.

Lastly, I would like to sincerely thank you again for giving me the opportunity to share with you today the perspective of a U.S. independent producer. I look forward to addressing any questions you may have.