



**GULF ENERGY**  
A L L I A N C E

April 15, 2021

The Honorable Debra Haaland  
Secretary, Department of the Interior  
1849 C Street, NW  
Washington, DC 20240

RE: Department of Interior's Virtual Forum on the Federal Oil and Gas Program

Dear Secretary,

Congratulations on your historic confirmation to lead the Department of the Interior ("DOI"). DOI has been a strong partner with our member companies for decades and we look forward to continuing our working relationship, which benefits not only our members and their employees, but also the United States Treasury and our national security interests.

The Gulf Energy Alliance ("GEA") is a coalition of leading independent offshore oil and natural gas producers dedicated to supporting policies and regulations which encourage investment, innovation, job creation, and safe and environmentally sound practices in the offshore energy industry in the U.S. Gulf of Mexico ("GOM"). Our mission is to inform and educate the public and decision-makers in business and the government about the ever-changing innovations in offshore exploration and development which continue to transform our energy landscape and the broader U.S. economy. We are committed to working with stakeholders, regulators, and elected officials at all levels of government to improve our nation's energy security through the development of vital energy resources in the Gulf of Mexico. It is with this mission in mind that we submit these comments for your consideration as DOI undertakes a review of the fossil fuel program on federal lands and waters.

Most independent offshore producers are not the household oil and gas company names with which you might be familiar. Rather, these are smaller companies—some even family-owned businesses—who have combined their skills and expertise in offshore exploration and production with an entrepreneurial spirit to develop niche companies which discover and produce our nation's offshore energy resources. They are able to increase the range of reserves that can be commercially produced by developing smaller fields and operating mature fields more efficiently than the larger oil and gas companies. In fact, in 2019, independent oil and gas companies collectively produced

approximately 47% of the total Outer Continental Shelf (“OCS”) production and provided 53% of the total revenues from offshore operations paid to the U.S. Treasury.<sup>1</sup>

Many of these companies were founded decades ago while others were started more recently, understanding the continued need for oil and natural gas here in the U.S. and globally. The Energy Information Agency (“EIA”) predicts we will need *more* forms of *all* energy in the future—not less—as worldwide energy consumption will grow by 50% by 2050, with oil and gas as a necessary fuel source for the world’s energy needs for decades to come, even with the transition to renewable sources.<sup>2</sup>

Independent offshore companies are the backbone of the U.S. offshore oil and gas industry. Whereas larger oil and gas companies (i.e., the majors and large independents) can pivot to onshore private lands in the U.S. or other international basins, GEA members will be forced to shut their doors or take their expertise and operations overseas if the viability of the U.S. offshore oil and gas industry is threatened. Indeed, everyone loses if the DOI were to abruptly end offshore oil and gas access and development: high-paying jobs will be lost, vast sums of tax and royalty revenues paid into the U.S. Treasury will be forfeited, energy prices will rise, oil and gas imports from often hostile foreign governments will increase, and the worldwide marine environment and air quality will suffer dramatically as domestically produced oil is supplanted by imports of foreign oil produced under far less exacting environmental safeguards.

To put a fine point on this, in 2019 the U.S. consumed roughly 20 million barrels of oil per day (“MMb/d”) while producing just over 12 MMb/d. Roughly 15% of U.S. oil production came from federal offshore regions. As recently as 2005, the U.S. imported 60% of its petroleum needs. Due to technological advances and investment in both onshore and offshore production, however, the U.S. has reduced its reliance on imports by one-third. Over the same timeframe, we have also moved from being a net importer of natural gas to a net exporter. No other country in the world has made that type of progress on energy security.

DOI has asserted that the U.S. fossil fuel program is not serving the American people well.<sup>3</sup> GEA members respectfully disagree. Tens of millions of blue-collar American workers have produced the offshore energy which has enabled this country to thrive and become a global superpower, in addition to fueling our cars and heating our homes.

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<sup>1</sup> See BSEE 2019 Production Data.

<sup>2</sup> <https://www.eia.gov/outlooks/ieo/pdf/ieo2020.pdf>.

<sup>3</sup> <https://www.doi.gov/pressreleases/interior-department-outlines-next-steps-fossil-fuels-program-review>.

There are numerous and other far-reaching benefits from offshore energy production to highlight, including:

- From 2006 to 2018, the federal government collected almost \$90 billion in revenue from offshore oil and gas activity (from bonus bids, rentals and royalties). Since the offshore program began in 1950, the U.S. Treasury has collected over \$200 billion. In contrast, it has collected roughly \$60 billion from onshore lands since 1950.<sup>4</sup>
- In 2019 alone, the offshore industry supported 345,000 direct jobs and produced 1.9 MMb/d for a \$28.6 billion GDP impact.
  - This production, in turn, provided \$5.4 billion in government revenue, which has supported at least \$353 million in funding for coastal restoration to Gulf states under GOMESA, and \$1 billion in funding for the Land and Water Conservation Fund.
  - With the recent enactment of the Great American Outdoors Act, offshore leasing and production revenues funds are “...a win-win for our public lands and the economy. This bill will fund projects to rebuild crumbling national park and public lands infrastructure across the country, preserve historic sites and access to recreation, and protect public lands for everyone,” according to U.S. Rep. Jared Huffman. “Last year, we permanently reauthorized the Land and Water Conservation Fund, and now by fully funding this program and addressing restoration needs in national parks and public lands, we are keeping that funding promise.”

In addition to the economic benefits, the environmental benefits are clear as well. U.S. offshore production has the lowest carbon emissions intensity of any other oil producing region, including U.S. onshore production.<sup>5</sup> In 2016, the Bureau of Ocean Energy Management (“BOEM”) acknowledged that “U.S. emissions would be higher if BOEM were to have no lease sales...Emissions from substitutions are higher due to exploration, development, production, and transportation of oil from international sources being more carbon intensive.”<sup>6</sup> To this end, carbon emissions from the production of oil and natural gas is minimal in offshore production; the majority of carbon dioxide emissions are attributable to end use consumption.<sup>7</sup>

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<sup>4</sup> See Office of Natural Resources Revenue historical data: <https://www.onrr.gov/>.

<sup>5</sup> Wood Mackenzie Report, NOIA.

<sup>6</sup><https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Leasing/Five-Year-Program/2017-2022/OCS-Report-BOEM-2016-065---OCS-Oil-and-Natural-Gas---Potential-Lifecycle-GHG-Emissions-and-Social-Cost-of-Carbon.pdf>.

<sup>7</sup> Id.

Finally, before addressing the formal offshore leasing program, the GEA would like to take this opportunity to correct the record on DOI's talking point regarding the stockpiling of leases.

While the GEA members cannot speak to the onshore acreage under lease, the U.S. federal offshore is comprised of 1.7 billion acres, yet only 12 million acres are under lease—less than 1% of available federal offshore acreage. Moreover, the minimum bonus required to be bid for offshore leases is \$100 per acre in water depths greater than 400 meters and \$25 per acre in water depths less than 400 meters. 84% of the leases acquired in the Gulf of Mexico federal lease sales from 2017 until present have been deep water leases.

It takes nearly a decade from the time a lease is granted or issued to bring that lease into production, which includes, but is not limited to, the following steps before the lease becomes a producing lease:

- Environmental reviews
- The acquisition, processing and interpretation of seismic data
- Developing and submitting exploration plans
- Drilling permit approval by BOEM and BSEE
- Drilling exploration and appraisal wells to determine the commerciality of a reservoir
- Designing, fabricating and installing the production platform and/or facilities and pipelines, and
- Drilling and completing development wells

This is but a snapshot of the long, complex, and highly regulated timeline any U.S. offshore operator must successfully navigate before a lease can become a producing lease.

It is also important to understand that despite DOI's assertion that 1,833 of the 2,276 active OCS leases are non-producing, that does not mean these are "non-productive" or "unused" leases. In fact, the companies holding these leases are actively working and spending millions of dollars to explore and develop their lease inventories, while at the same time paying yearly rentals to the federal government of \$11 per acre for non-producing leases in water depths greater than 200 meters and \$7 per acre in water depths under 200 meters. These rental rates increase significantly after the first five years of the lease term.

In short, leases categorized as "unproductive" by DOI are typically the source of tremendous operational and economic activity, including drilling deep water wells which can cost hundreds of millions of dollars and involve the construction of production facilities which can cost as much as billions of dollars to construct and install.

It is also important to correct the record about the number of approved permits on offshore oil and gas leases. Specifically as it relates to DOI's Fact Sheet, dated January 21, 2021 and entitled "President Biden to Take Action to Uphold Commitment to Restore Balance on Public

Lands and Waters, Invest in Clean Energy Future,” which asserts that “Onshore and offshore, the oil and gas industry is sitting on approximately 7,700 unused, approved permits to drill.” This is a terribly inaccurate statement, as it implies that there could be as many as 3,350 unused offshore permits to drill.

To that point, we would respectfully direct your attention to the following Bureau of Safety and Environmental Enforcement (“BSEE”) website where BSEE discloses the number of drilling permit applications it has received in addition to the number of permits the agency has approved.<sup>8</sup> In 2020, BSEE approved 10 shallow water drilling permits and 54 deep water drilling permits. In 2019, those approvals were 25 for shallow water and 62 for deep water. Thus far in 2021, those approvals amounted to 14 for shallow water and 11 for deep water.

Offshore operators do not amass unused permits given the technical work and detail required to even apply for—much less obtain—approval of an offshore drilling permit. This is important, as it represents – when combined with the minimum bonus bid, rentals and royalty requirements required under federal offshore leases — quite a distinction between offshore and onshore federal leases.

### **Review of “Fossil Fuels Program”**

GEA appreciates DOI’s desire to look at the nation’s “fossil fuels programs” to address any perceived shortcomings and include its findings in a report later this year. To help inform DOI’s findings and report, below are some observations on several issues of critical importance to the GEA membership.

#### **Financial Assurance**

The GEA applauded the DOI for issuing proposed regulations relating to financial assurance published in Volume 85 Federal Register 65904 *et.seq.* (the “*Proposed Regulations*”), and it is vitally important that the Proposed Regulations, as written, promptly become a final rule. The Proposed Regulations safeguard the American taxpayers from ever being responsible for offshore decommissioning, while, at the same time, ensuring that the DOI accomplishes its statutory obligation to make the “vital national resource” of the OCS “available for expeditious and orderly development.”<sup>9</sup> The Proposed Regulations establish clear guidance and rules that the industry sorely needs and has been lacking for years. The uncertainty created by the current financial assurance regulations and guidance has hindered investment in the Gulf of Mexico. At such an uncertain time for the offshore oil and gas industry, finalizing the Proposed Regulations would give the industry the regulatory certainty it needs.

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<sup>8</sup> <https://www.bsee.gov/stats-facts/offshore-information/status-of-gulf-of-mexico-well-permits>.

<sup>9</sup> 43 U.S.C. § 1332(2).

The GEA is firmly committed to the principle that the goal of any financial assurance framework should be for the “protection of American taxpayers from exposure to financial loss associated with OCS development, while ensuring that the financial assurance program does not detrimentally affect offshore investment or position American offshore exploration and production companies at a competitive disadvantage.”<sup>10</sup> To that end, we believe the Proposed Regulations strike the critical balance between a calibrated and common sense financial assurance framework while, at the same time, creating a framework which protects the U.S. taxpayers without driving business, royalties, jobs, and new investment out of the Gulf of Mexico. We are hopeful that DOI will review GEA’s full comments on the Proposed Regulation as submitted for the record in December 2020.

### Five-Year Program

The five-year program works. Since 1980, nine distinct five-year programs and a revised version of one program have been submitted to Congress and subsequently finalized. The administrative procedures required by law in developing a new five-year program take two to three years, during which many National Environmental Policy Act reviews are undertaken. Through these processes, there has developed a reliable and consistent track record for determining available OCS Planning Areas and lease sales. That consistency has shaped market conditions and provided this industry with a framework upon which it and all of its stakeholders—most importantly the DOI and U.S. taxpayers—can rely.

The stability of the U.S. offshore regulatory regime is indeed a major reason why many companies with opportunities across the globe prefer operating in the U.S. GOM.

While the OCS Lands Act requires that offshore federal leases have a minimum royalty rate of 12.5%, the DOI has increased the Gulf of Mexico royalty rate over time, and, in 2008, the royalty rate was increased to 18.75% for all water depths. In 2017, in order to encourage continued interest in the more mature shallow waters, the royalty rate for newly acquired shallow water leases was decreased from 18.75% to 12.5%. With deep water leases currently representing 85% of all the leases acquired since 2017 under the current five-year program, DOI can rely on a steady stream of revenue from the OCS to fund important conservation programs. If leasing is halted or paused, however, it could completely and forever derail the consistent, predictable investments in the GOM – to the detriment of hardworking Americans, national energy security, the broader economy, and the global environment.

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<sup>10</sup> 85 FR at 65907.

In closing, in light of the broader global discussions regarding the energy transition and climate impacts of fossil-fuel production, the U.S. GOM is a critical component of the *solution* to these concerns. The DOI should continue to fully embrace the benefits of U.S. offshore production. As DOI considers its recommendations, we hope it will include a seat at the table for GEA and its members.

Please do not hesitate to contact me if GEA and our members can be of any assistance.

Sincerely,

A handwritten signature in blue ink that reads "Kevin Bruce". The signature is written in a cursive, flowing style.

Kevin Bruce  
Executive Director  
Gulf Energy Alliance