



April 15, 2021

The Honorable Deb Haaland
Secretary
U.S. Department of the Interior
1849 C Street, N.W.
Washington, D.C. 20240
Delivered Electronically

Re: U.S. DOI Review of Federal Oil and Gas Leasing Program

About NOIA:

I submit these comments on behalf of the National Ocean Industries Association, or NOIA. An almost 50-year-old organization, NOIA represents all segments of the offshore energy industry. This includes traditional fossil fuels such as oil and natural gas, primarily in the Gulf of Mexico, as well as important new sources of energy like offshore wind. Further, our members include energy developers and, just as importantly, the businesses - large and small - who do the work of building, supplying, and servicing these projects.

Legal and Regulatory Background:

Since the 1930s, energy companies have tapped oil and gas resources offshore in the United States. The primary federal law on developing oil and gas in federal waters (which begin at least 3 miles offshore, depending on the state) is the Outer Continental Shelf Lands Act (OCSLA). This law, critically, does not simply *allow* for offshore oil and gas development but rather it states that its main purpose is “expeditious and orderly development [of resources], subject to environmental safeguards, in a manner which is consistent with the maintenance of competition and other national needs.”¹ Furthermore, the statute uses mandatory terms such as “shall” and “will” in directing continuing leasing for exploration, development and production of oil and gas. OCSLA creates a framework by which federal waters and the resources thereunder are regularly leased via Section 18 of the law and the requirement for the Secretary of Interior to prepare *and maintain* a five year leasing plan which includes a schedule of lease sales. The leasing program explicitly must balance and consider “economic, social, and environmental values”.²

The specific wording of the statute confirms that leasing is not discretionary. While arguments to the contrary have been recently made, such arguments twist and contort the statute in an exercise of interpretive gymnastics that completely fails. The specific and repeated use of the word “shall” by Congress makes clear there is a mandate for continued leasing. We will provide a few examples of the mandatory nature of the statute and requirements for continued leasing here.

First, Section 18 opens by stating “The Secretary, pursuant to the procedures set forth in subsections (c) and (d) of this section, *shall* prepare and periodically revise, and *maintain* an oil and gas leasing program to implement the policies of this Act.” Here, it is clear that Interior shall maintain a schedule of lease sales. This language goes beyond mere preparation and directs the

¹ 43 U.S.C. Sec. 1332(3)

² 43 U.S.C. Sec. 1344 a(1)



government to maintain a leasing program. Interior must also maintain a leasing program that implements the policies of the Act and this includes expeditious and orderly development.

OCSLA does require a balanced approach. Management of the outer Continental Shelf must be conducted in a way that “*considers* economic, social, and environmental values” and “the potential impact of oil and gas exploration on other resource values.” The process for developing and managing leasing and associated activities is designed to ensure that robust consideration is given to these important factors. However, the statute in no place authorizes or even suggests no leasing as an option. When read as part and parcel of this section that mandates leasing, use of the phrase “Management of the outer Continental Shelf shall be conducted” makes clear the requirement for continued leasing.

Next, OCSLA states, as part of the process for developing a leasing program, that the “Timing and location of exploration, development, and production of oil and gas among the oil- and gas-bearing physiographic regions *shall* be based on a consideration” of various factors. The plain language of this section and the use of the term *shall* make clear that leasing is a requirement. The factors themselves demonstrate that the current, 2017-2022 leasing program actually fails to meet the statutory intent because it provides an unreasonably narrow scope of leasing areas. According to the statute, among other things, the timing and location of leasing shall be based upon an “equitable sharing of developmental benefits and environmental risks among the various regions.” There are 26 planning areas for leasing in the U.S outer Continental Shelf, yet the current program as implemented has confined leasing to only two of the 26 areas. Surely an equitable sharing of the benefits and risks would require exploration, development, and production to occur in more than two of the 26 areas. The use of the term “*shall*” -- read in conjunction with the balance of the factors provided in this section of the statute -- makes clear the statutory directive for continued leasing.

Further, OCSLA states “The Secretary *shall* select the timing and location of leasing, to the maximum extent practicable, so as to obtain a proper balance between the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse impact.” Once again, we see the Congressional intent for Interior is to fulfill its obligations in a balanced way so that environmental and coastal considerations are incorporated into the decision-making process. Once again though, Congress used the term “*shall*” and made it mandatory for Interior to proactively select areas for oil and gas leasing.

Also, OCSLA states “Leasing *shall* be conducted to assure receipt of fair market value for the lands leased and the rights conveyed by the Federal Government.” The intent could not be made clearer than it is here. Congress affirmatively states that leasing “*shall* be conducted.”

There is zero ambiguity in Congressional intent to continue to hold lease sales. The above are but a few of the examples of the explicit, directive language within the statute. There are many other examples. The plain reading of the statute is straightforward and mandatory and requires continued, robust leasing.

In summary, leasing of America’s offshore is imbedded in statute and has been for decades, with energy produced off our coasts for nearly 100 years. Continued leasing is mandatory. A lack of



lease sales, and a lack of robust lease sales, is contrary to specific language as well as the spirit and intent of the OCSLA.

Also, while it is important to review the impacts of federal action and decisions, including federal oil and gas leasing, the current review constructively ignores the process and comprehensive reviews that are in place, and that have already been completed, for offshore oil and gas leasing pursuant to the system established by the OCSLA. The current review effectively subverts the established statutory process and substitutes it with a review that is conspicuously absent in law. As discussed by the BOEM Director at the outset of the virtual forum, Interior already follows a rigorous review process with many steps and environmental analyses completed in the finalization of the 2017-2022 leasing program. It bears repeating here some of the steps already in place and that already cover the March offshore lease sale that has been paused by the current review:

- The OCSLA law promotes and requires a balanced approach by ensuring American oil and gas resources are developed and that operations are conducted in a safe manner with environmental safeguards in place.
- Before any drilling can occur, the government – through the U.S. Department of the Interior – must go through many steps and multiple environmental analyses. Dozens of laws, approvals of regulations apply to offshore operations.
- In order to explore for oil and gas resources in federal offshore waters, companies must first purchase a lease, or contract, to obtain the right to explore for and produce offshore oil and gas resources. Leases are divided into 3 mile by 3 mile tracts (5,760 acres) and are generally for a term of 10 years. Companies purchase leases by bidding in an auction on the property, with the highest qualified bidder receiving the lease. The minimum bid for a lease is about \$250,000. Once a company obtains a lease, it pays rental fees as long as oil and natural gas are not being produced on the property. Once a lease goes into production, companies then pay royalties of between 12.5 and 18.75% of the total amount received in payment for the oil and gas sold on the market.
- The government offers leases at periodic lease sales, within which the government identifies all of the leases that are available for purchase.
- In order for the government to have a lease sale in an offshore area, the offshore area must first be included in the OCS Leasing Program that covers a period of 5 years. There are 26 different offshore areas (referred to as planning areas), and the government goes through a robust process before finalizing the OCS Leasing Program. There are 5 steps in the process of developing the program, including comprehensive environmental reviews and opportunities for public input.
- Once a Leasing Program is finalized, the Department of the Interior then goes through a robust process prior to holding the lease sales that have been identified in the period covered by the program.
- After receiving a lease, companies must go through many steps prior to exploring for oil and natural gas. There must be an environmental assessment, the approval of an exploration plan, and approval of drilling permits which must adhere to strict environmental rules.
- If the exploration phase is successful and oil or natural gas is found in quantities sufficient for economic development of the field, then companies must go through

several steps prior to actual production and marketing of oil and gas. Companies must obtain approval of development and production plans, deepwater operations plans, and consistency determinations for coastal zone management certifications. Many additional approvals are also required by law.

The March lease sale and corresponding leasing program that has been paused were subject to a statutorily prescribed and robust review as part of the process for developing the 2017-2022 OCS leasing program. This included multiple environmental reviews and a separate analysis and document that specially considered the greenhouse gas impacts of the leasing program, as well as several rounds of public comment periods. The current review is redundant. Furthermore, pursuant to statute and regulation, Interior should be in the process of completing the development of the offshore leasing program for 2022-2027, which provides the Department with an opportunity to complete another comprehensive review consistent with the law.

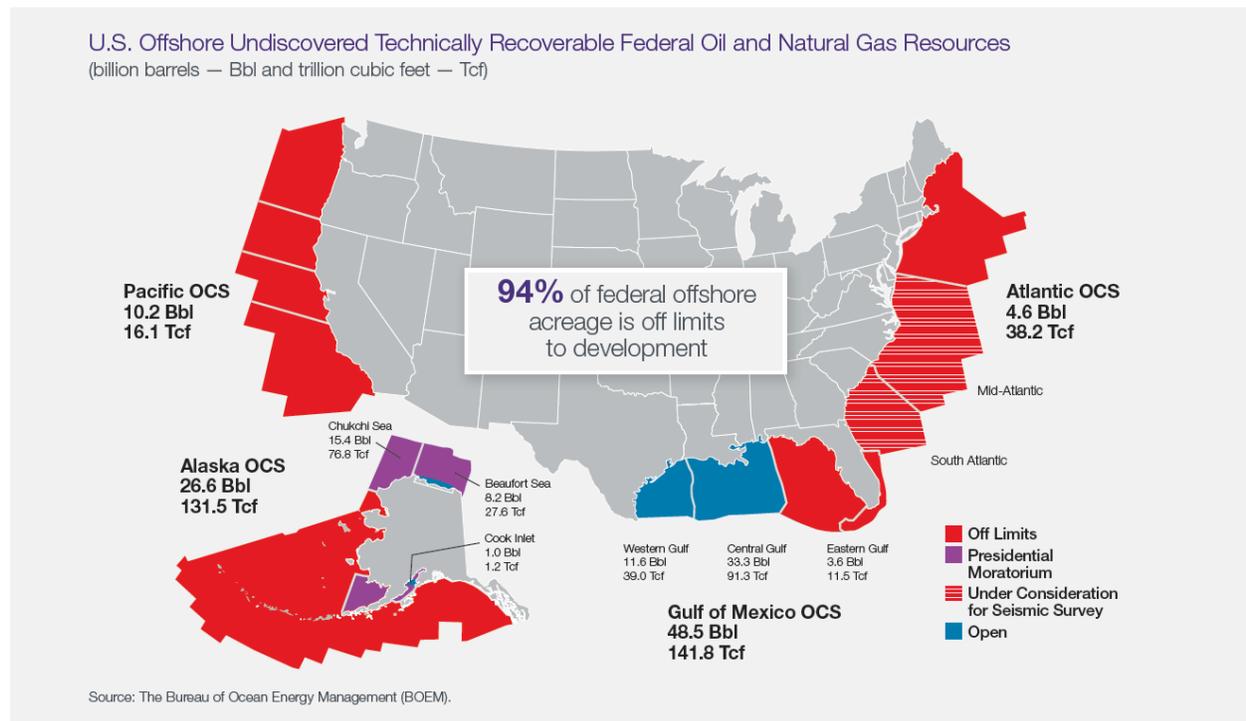
For these reasons, Interior should promptly proceed with the current leasing program for 2017-2022 and re-commence lease sales. There is significant concern that Interior is tapping into valuable time and resources that should instead be dedicated to the statutorily mandated development of the 2022-2027 oil and gas leasing program, which begins on July 1, 2022. We are only 15 months away from the commencement of the 2022-2027 leasing program and Interior has important steps to complete in order to fulfill this important legal requirement and provide the regulatory certainty needed for the country, Americans, and the industry to plan for continued investment, job growth, affordable, low carbon energy through domestic offshore oil and gas production.

Some 97% of offshore oil and gas production happens in areas termed either the Central or Western Gulf of Mexico--see here in a Department of Interior map—with green areas showing active leases towards the end of the Obama-Biden Administration.³ Despite proposals and significant public debate about tapping new areas, areas actively under consideration for potential leasing and development were not expanded under the Trump Administration.



³ https://www.boem.gov/sites/default/files/about-boem/BOEM-Regions/Gulf-of-Mexico-Region/GOM-OCS_Lower_48_Strategy_2012-2017.pdf

There is a total of 1,712.26 million acres on the Outer Continental Shelf (OCS)⁴⁵. Less than 12.5 million acres are currently under lease on the OCS⁶, or about 0.73% of the OCS. Of that small amount, less than 2.5 million acres are currently producing, which totals less than 0.15% of the entire U.S. OCS. Some 97% of offshore oil and gas production happens in areas termed either the Central or Western Gulf of Mexico, which total only about 95 million acres or only about 5.55% of the OCS (of which about 2.3 million acres are on producing leases). Areas of the Central and Western Gulf of Mexico have been leased and producing for decades. These prolific and productive areas contribute greatly to the national interest through a small footprint relative to total OCS acreage as described previously.



Despite this longstanding production in the Gulf and the Department of Interior’s legal mandate to lease America’s waters for responsible energy production, some have proposed that the Biden Administration should restrict or halt leasing in the Central and Western Gulf of Mexico. NOIA commissioned a study on just such a proposal, and that study is attached to this document, but in short **such a policy would slash nearly 200,000 jobs from the United States and dramatically harm energy production over the next two decades.**

⁴ https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Mapping-and-Data/PAstats_01-01-2018.pdf

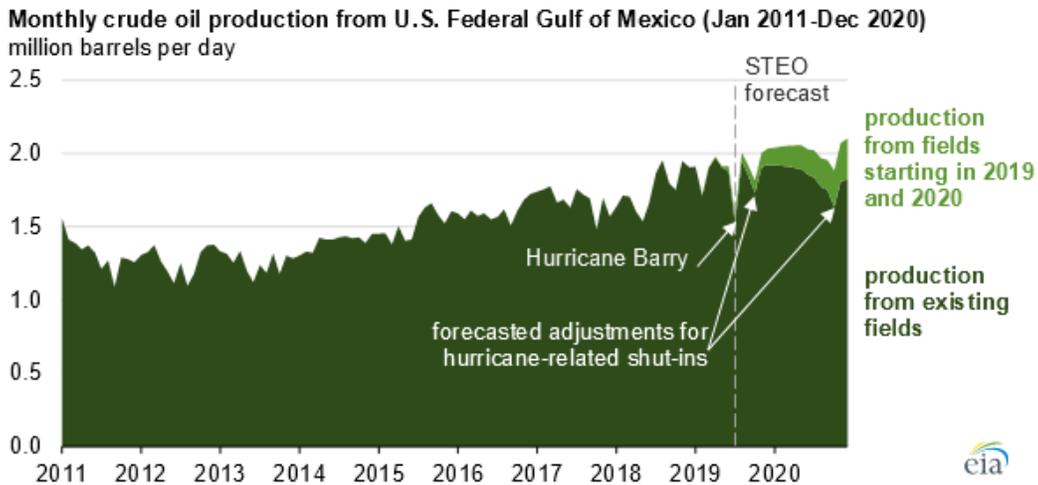
⁵ <https://www.boem.gov/sites/default/files/documents/oil-gas-energy/leasing/Presidential-Withdrawal-Map-and-GOMESA-Moratorium.pdf>

⁶ <https://www.boem.gov/sites/default/files/documents/about-boem/Lease%20stats%203-1-21.pdf>

BASELINE	NO NEW LEASING
1.9 MILLION BOE/DAY PRODUCTION	0.9 MILLION BOE/DAY PRODUCTION
367,000 JOBS SUPPORTED	173,000 JOBS SUPPORTED
\$30.0 BILLION ANNUAL SPENDING	\$12.1 BILLION ANNUAL SPENDING
\$31.1 BILLION ANNUAL GDP CONTRIBUTIONS	\$16.4 BILLION ANNUAL GDP CONTRIBUTIONS
\$6.7 BILLION GOVERNMENT REVENUES	\$3 BILLION GOVERNMENT REVENUES

Increasing Energy Production From The Offshore:

In general, the story of offshore oil and gas has been one of innovation, safety, environmental protection, and stability. Prior to the COVID-19 crisis, we saw a continual increase in production from the Gulf of Mexico (see below).⁷

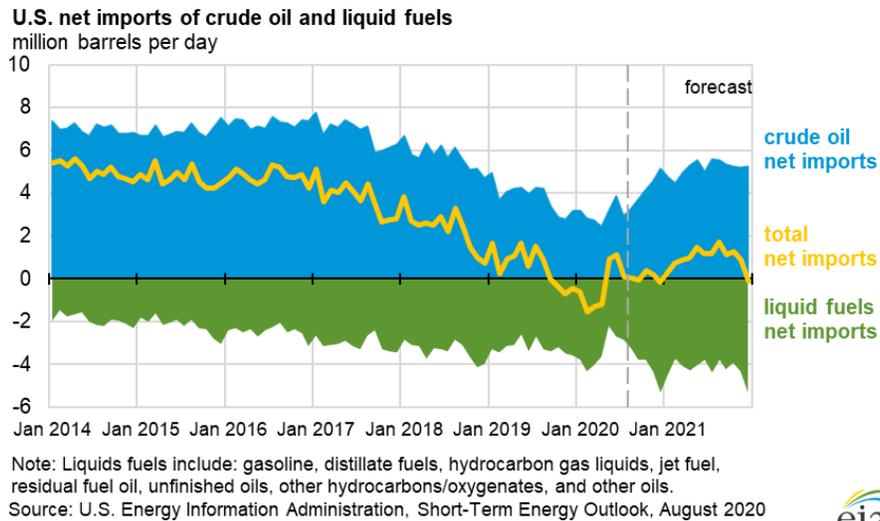


This production in the Gulf has formed the backbone of the domestic oil and gas renaissance. The offshore region has served as the foundation of U.S. energy security, providing more than a million barrels of oil per day since 1997 and reaching record volumes of two million barrels per day in August of 2019. Domestic production has climbed dramatically in recent years, helped by the offshore but pushed significantly by onshore energy production to the point that America has at times become a net oil and fuels *exporter*.⁸ This is a remarkable sea-change for the American economy, balance of trade, national security, and countless other benefits in communities across

⁷ <https://www.eia.gov/todayinenergy/detail.php?id=41693>

⁸ https://www.eia.gov/outlooks/steo/report/us_oil.php

the country. In fact, if the Gulf of Mexico represented a country, it would be the 8th largest oil producing nation in the world.



Economic Benefits Of Offshore Oil and Gas

At the same time, the Gulf of Mexico provides enormous economic benefits. As seen in the first attachment, NOIA commissioned a study by the Energy and Industrial Advisory Partners which looked at the job creation and economic contributions of the Gulf. The below chart shows the billions of dollars in economic activity driven by the Gulf, but it is also worth noting that the Gulf of Mexico oil and gas industry contributed some \$5.4 billion in 2019 of government revenue and an enormous 345,000 jobs supported.



Figures according to 2020 study performed by Energy and Industrial Advisory Partners

While most of these jobs are along the Gulf Coast, every state has jobs and businesses that are part of the Gulf of Mexico oil and gas industry, be it in the physical supply chain, technology development, or other aspects of the work needed to foster this high-tech industry. These jobs are



high-paying and accessible, providing a unique opportunity for economic mobility that many people would not otherwise have⁹.

As noted above, the industry generated \$5.4 billion in government revenue in 2019. Historically, the offshore oil and gas industry has been an important generator of revenues for the Federal government, as well as state and local governments. Between 2000 and 2018, more than \$120 billion in high bids, royalties and rents was generated for the government¹⁰. Some of these revenues flow back to key conservation programs, such as the Land & Water Conservation Fund (which is funded entirely by offshore oil and gas production) and, beginning in 2021, certain provisions established in the recent Great American Outdoors Acts. In fact, just in March of this year the Department disbursed nearly \$250 million for coastal conservation and other programs, commenting that “Today's action represents the second largest disbursement since the Dept first began disbursing GOMESA revenues to states and their CPS in 2009.”¹¹ These are critical revenues for vital programs that does not have to burden individual taxpayers.

In addition, revenues shared with Gulf Coast states through GOMESA are used by state and local governments for a host of vital programs, including wetlands preservation, coastal restoration, flood prevention and hurricane mitigation.¹²

Without continued and robust oil and gas production in the Gulf of Mexico, it will be more difficult to ensure funding for America’s conservation and environmental stewardship programs. However, these benefits and the enormous economic contributions they make could be threatened by unintended consequences of policy-making decisions.

Offshore Oil and Gas: The Reason For Non-Producing Leases

In the process of developing these resources, it is true that federal operators in the offshore have bid upon—and currently hold—certain leases that are not currently producing. This has contributed to the perception that industry “stockpiling” leases and the argument that this means that *additional* lease sales are unnecessary. However, this represents a fundamental misunderstanding of how the oil and gas industry operates under the offshore leasing program. This is because the oil and gas industry often must bid on leases around which there is significant uncertainty or an inability to immediately move into drilling and production. In order words, companies must cast a wide net of lease blocks, then winnow through prospective lease blocks through additional exploration and study, a process that can take years, before they are able to identify a commercially viable discovery. While this brings immediate benefits to the federal government and taxpayers—in the form of bonus bids, rentals, and other payments into the U.S. Treasury—it begins a lengthy and costly process for industry during which the prospects for energy production in economic amounts are determined.

⁹ <https://www.api.org/-/media/Files/Policy/Jobs/Women-and-Minorities-in-oil-natural-gas-industry.pdf>

¹⁰

<https://revenue.data.doi.gov/explore/?dataType=Revenue&location=NF&mapLevel=State&offshoreRegions=true&period=Fiscal%20Year&year=2019>

¹¹ <https://www.doi.gov/news/interior-disburses-nearly-249-million-gulf-states-coastal-conservation-restoration-and>

¹² <https://www.boem.gov/oil-gas-energy/energy-economics/gulf-mexico-energy-security-act-gomesa>

Legally competing at auction for rights to explore and develop offshore federal lands and paying a bonus to acquire a federal offshore oil and gas mineral lease can be a risky proposition for industry: there is no guarantee that oil and gas resources are present in the subsurface. There is an element of energy production that is still speculative even with incredible advances in technology. Due to this risk, some leases are not currently producing because they are still being studied to determine if energy reserves exist or if they exist in quantities high enough to be produced economically and in compliance with regulatory standards. In other cases, sites are being considered for exploratory wells and industry is going through the thorough regulatory process for approval. Given that a production well in the Gulf of Mexico can cost hundreds of millions of dollars to develop, some leases will eventually expire and be returned to the federal government for *future* consideration if technology improves enough to make resources accessible.

As the non-partisan federal Congressional Research Service concluded during the Obama Administration,

Many leases expire before exploration or production occurs...Generally, a number of concerns arise in the oil and gas leasing process that delay or prevent oil and gas development from taking place, or might account for the large number of leases held in non-producing status. There could be a lack of drilling rigs or other equipment availability, and financing and/or skilled labor shortages. Legal challenges might delay or prevent development. There are typically also many leases in the development cycle (e.g., conducting environmental reviews, permitting, or exploring) but not producing commercial quantities.¹³

Continued leasing under competitive terms is a necessary and critical component for the U.S. to move forward with a balanced approach that ensures that we are promoting energy security, national security, climate change solutions, environmental protection, safety, conservation programs, affordable energy, economic recovery, and job growth.

Environmental Impact

As described below, this **offshore production also comes with a smaller environmental impact than what has been seen in other regions of the world as it relates to the physical footprint, air emissions, and water use and management.** The U.S. offshore is characterized as one of the strongest regulatory and oversight regimes in the world, making production here in the U.S. a more environmentally-friendly option than many producing regions in the world. The U.S. offshore produces high volumes of oil and gas with a far smaller physical footprint than can be seen in other regions or with onshore production. For instance, in 2019, 18 offshore facilities (whose combined surface area equates to about 9 city blocks) produced 75% of offshore

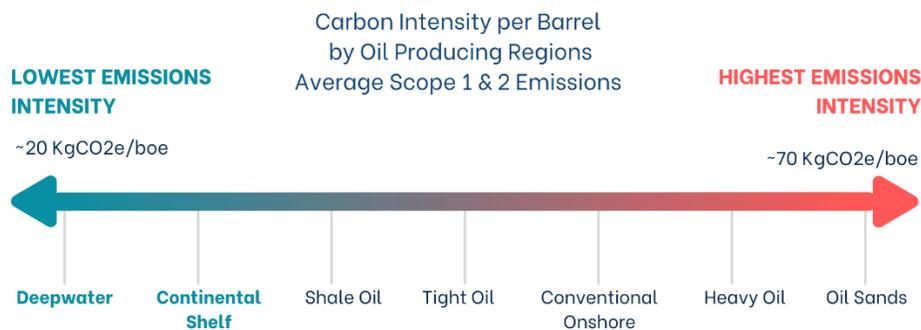
¹³ <https://crsreports.congress.gov/product/pdf/R/R40645>

production, or about 1.4 million barrels of oil per day, or the same amount produced as the entire state of North Dakota¹⁴.

The region is also a leader for methane emission reductions. This is in large part because methane emissions are closely regulated offshore. Volumes of gas, of which methane is a primary component, to be flared or vented from offshore facilities are tightly regulated under the provisions of 30 CFR 250 Subpart K. Over the past few decades, operators have moved away from using natural gas driven pneumatic devices to instrument air, eliminating the methane emissions from operation of such devices. Furthermore, gas detection systems are generally standard on facilities, allowing operators to identify and address methane gas leaks, further reducing methane emissions from offshore facilities.

Critically, regulations have evolved regarding venting and flaring of methane in the offshore to the point that the practice has been dramatically reduced in the Gulf of Mexico. **The U.S. Gulf of Mexico accounted for 15% of U.S. oil production in 2019, yet EIA data shows venting and flaring emissions from offshore oil and gas operations accounted for a mere 2.6% percent of nationwide energy production venting and flaring emissions in 2019.**¹⁵ EPA data also shows methane emissions from offshore oil and gas production accounted for **less than one percent of total nationwide methane emissions** in 2019.¹⁶

In addition, the carbon intensity of the Gulf of Mexico is 50% of that of other producing regions¹⁷. In short, the U.S. and world depend upon reliable supplies of oil and natural gas for a high quality of life and to lift people out of poverty, and U.S. offshore production should be the basin of choice for producing that energy because of demonstrably lower environmental impacts for an energy source we *will* continue to need for years to come.



Source: Wood MacKenzie

¹⁴<https://www.reuters.com/article/usa-oil-north-dakota/update-1-north-dakotas-oil-output-up-12-in-aug-as-more-wells-resume-output-idUKL1N2H71XK>

¹⁵ https://www.eia.gov/dnav/ng/ng_prod_sum_a_EPG0_VGV_mmcf_a.htm

¹⁶ [Draft 2021 Greenhouse Gas Inventory](#)

¹⁷ https://s3-eu-west-1.amazonaws.com/itempdf74155353254prod/12111480/Statistical_Study_of_Carbon_Intensities_in_the_GOM_and_PB_v1.pdf



In fact, a 2016 report at the end of the Obama Administration—issued under then-Secretary Sally Jewell—found that “U.S. GHG 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.”¹⁸

Coupling these facts with the Biden Administration’s clear focus on environmental protection, environmental justice, and the need to meet concrete climate goals, the Gulf of Mexico *must* remain a region of choice for oil and gas production.

Offshore Royalty Rates

There are several revenue streams generated in the leasing and production of Gulf of Mexico offshore resources. The first is the bonus bid, paid to the U.S. government by operators up front to acquire a federal oil and gas lease. The bonus bid is paid without ever knowing what resources may lie underneath the seabed and is kept by the federal government regardless of if oil and gas are ever produced from the lease. The second revenue stream is the annual rental payments tendered to hold the lease until it produces or expires. Again, this revenue is kept by the federal government and companies pay each year while they work through their own internal assessment process and/or as the DOI goes through its robust permitting process. The last revenue source is the royalty and occurs when energy resources are produced in federal waters, at which point companies extracting those resources are required to pay a “royalty” payment to the federal government—this is in recognition of the fact that resources on public lands and waters are a public resource. For federal leases in the Gulf of Mexico, the royalty rates have increased 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%. However, since then, 84% of the leases acquired at OCS lease sales were in the deepwater regions and subject to the higher 18.75% royalty rate.¹⁹

Critically, the significant payments brought in by royalty rates (along with bonus bids and rental payments) help to fund a wide range of state and federal programs, namely around conservation and park maintenance. In fact, as described at a high level in an earlier section, disbursements from offshore oil and gas in fiscal years 2016 through 2019 were enormous, reaching almost \$5 billion to various accounts:²⁰

¹⁸ <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>

¹⁹ <https://revenuedata.doi.gov/how-it-works/revenues/#oil-gas-rates>

²⁰ <https://revenuedata.doi.gov/query-data/?dataType=Revenue>



Recipient	2016	2017	2018	↓ 2019
U.S. Treasury	\$1,865,028,729	\$1,748,637,164	\$2,789,421,771	\$3,826,926,987
Land & Water Conser...	\$883,627,823	\$891,828,225	\$893,887,297	\$877,772,576
Historic Preservation ...	\$0	\$150,000,000	\$150,000,000	\$150,000,000
Other	\$158,644,486	\$122,238,329	\$116,875,635	\$110,056,157
All recipients	\$2,907,301,038	\$2,912,703,718	\$3,950,184,703	\$4,964,755,720

This includes not only the federal Land and Water Conservation Fund but also distributions to state governments along the Gulf Coast, as seen in a recent Congressional Research Service report on the topic and the related chart here:²¹

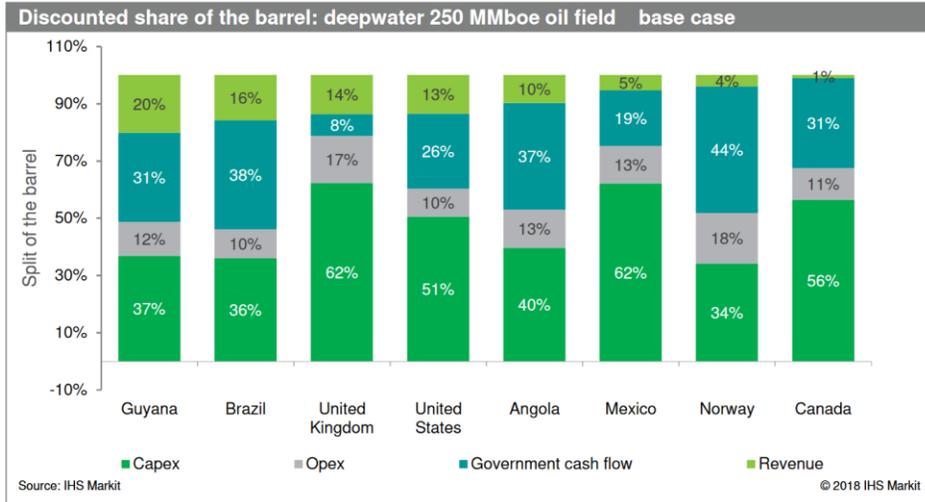
Table 3. GOMESA Distributions to States/CPSs and the LWCF, FY2009-FY2019
(\$ millions)

Year of Distribution ^a	Alabama ^b	Louisiana ^b	Mississippi ^b	Texas ^b	Total State Revenue	LWCF State Program ^c	Total Revenue Shared
FY2009 ^d	7.7	7.9	6.9	2.7	25.2	8.4	33.7
FY2010	0.8	0.9	0.7	0.3	2.7	0.9	3.6
FY2011	0.3	0.3	0.2	0.1	0.9	0.3	1.2
FY2012	0.1	0.1	0.1	<0.1	0.3	0.1	0.4
FY2013	0.1	0.1	0.1	<0.1	0.3	0.1	0.4
FY2014	1.3	1.4	1.2	0.5	4.3	1.4	5.8
FY2015	0.7	0.8	0.7	0.3	2.4	0.8	3.3
FY2016	0.1	0.1	0.1	<0.1	0.3	0.1	0.4
FY2017	0.3	0.3	0.3	0.1	1.0	0.3	1.3
FY2018	26.8	82.8	27.8	50.6	188.0	62.6	250.6
FY2019	30.6	94.7	31.7	57.9	214.9	71.6 (est.)	286.6 (est.)
Total	68.6	189.5	69.6	112.6	440.4	146.7 (est.)	587.0 (est.)

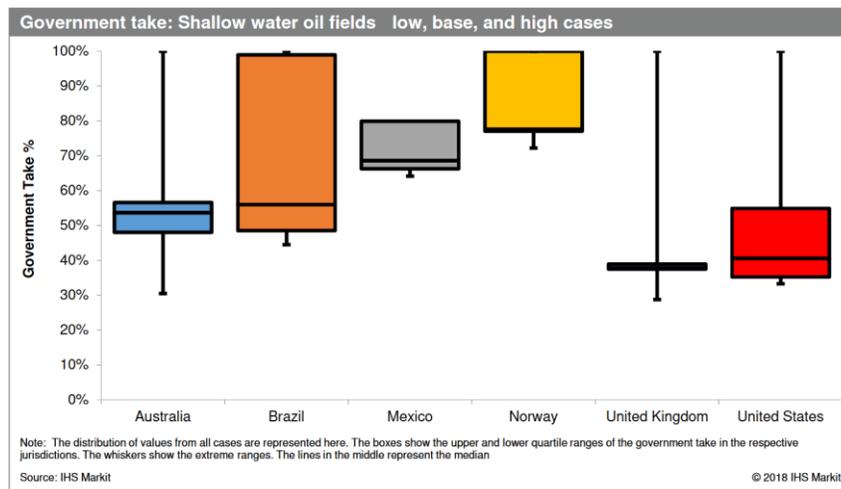
These revenues are important, and they will *continue* to be a critically important piece of the energy and economic story of the U.S. However, it is also the case that these revenues are only generated if access is provided and energy production in federal waters is attractive enough to bring capital to bear. Notably, domestic energy production from federal waters remains costly both in terms of capital expenditures *and* the government's take in the form of taxes, lease bids, bonus bids, rent paid, and royalty paid. In fact, IHS Markit conducted an analysis²² in 2018 looking at deep water production and found that the revenue ultimately flowing to companies producing energy in the Gulf is lower than many peer—and competitor—nations, roughly coming up in a middling position.

²¹ <https://crsreports.congress.gov/product/pdf/R/R46195>

²² <https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Energy-Economics/Fair-Market-Value/2018-GOM-International-Comparison.pdf>



This is an issue, and one worth exploring. However, the problem had clearly become most acute in shallow waters of the Gulf of Mexico, a region with more marginal wells producing lesser volumes of oil. In shallow waters, from November 2000 to September 2018, oil production in shallow waters declined by some 75%.²³ Subsequently, the Trump Administration reduced shallow water royalties to 12.5% for *newly* issued leases in the August 2017 Gulf of Mexico lease sale (Lease Sale 249). While this did not provide relief to the many *existing* leases, the change resulted in a nearly 22% reduction in government “take” of offshore oil operations in shallow waters, as seen in the chart below comparing domestic shallow water oil operations to peer nations abroad from IHS:²⁴



This was a valuable step that, we believe, increases the viability and attractiveness of domestic offshore energy. Royalty rates remain substantial in the offshore, and it is important that the

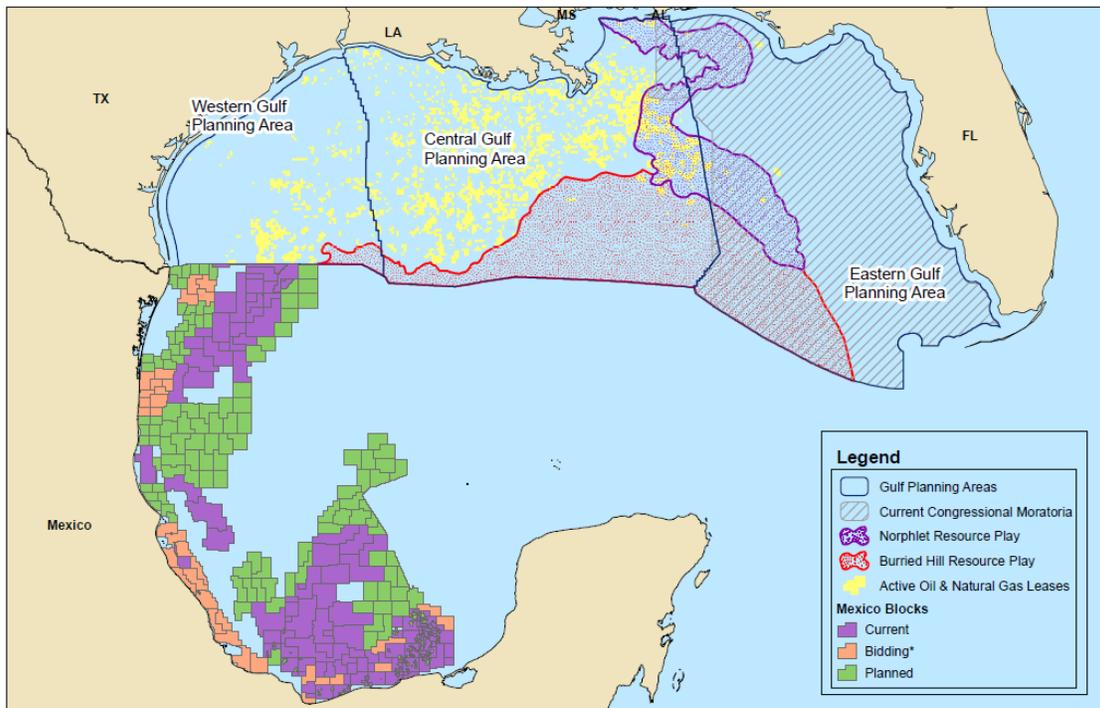
²³ <https://www.cassidy.senate.gov/newsroom/press-releases/cassidy-urges-interior-department-to-lower-royalty-rates-for-shallow-water-drilling-to-generate-more-jobs-revenue>

²⁴ <https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Energy-Economics/Fair-Market-Value/2018-GOM-International-Comparison.pdf>

Department continue to find the proper balance between attracting necessary capital to an enormously financially-intense undertaking (producing energy from federal waters) while at the same time bringing revenue back to American taxpayers.

Production Will Shift to Foreign Sources, and The Gulf of Mexico Will Be Developed By Mexico

Whatever occurs with domestic energy policy related to the Gulf of Mexico, the fact remains that other countries offer rights to explore, develop, and produce in the offshore. Restricting production in the Gulf of Mexico will not end the production of oil; it will only shift the production to countries like Russia, China, and Iran. When it comes to the Gulf of Mexico, we have seen investment shift to the Mexican side of the region. Mexico is already producing energy adjacent to state and federal waters belonging to the United States and is actively bidding out and considering additional acreage. We believe that a slowdown or cessation of activities in American waters would be little less than a “unilateral disarmament” that would cost us one of the most productive and safe regions for energy development in the country while other countries eagerly step in to tap greater global market share and power.



Gulf of Mexico Oil and Natural Gas Development and Future Opportunities

Service Layer Credits: BOEM 2016 National Assessment of Undiscovered Oil and Gas Resources of the U.S. Outer Continental Shelf. DrillingInfo. MarineCadastre.gov. U.S. Navy. <http://www.data.boem.gov/Main/Mapping.aspx>

Resource Estimates Based on 2016 Assessment Data		
Play	Gas (Tcf) UTTR	Oil (Bbl) UTTR
Norphlet	6.81 - 23.61	1.0 - 4.45
Buried Hill	0.0 - 25.35	0.0 - 9.86

*Bidding opened 9/29/2017 and will close 3/27/2018.

Offshore Oil and Gas Can Lead Energy Transition

There is an energy transition that is currently underway. However, this transition cannot occur



without the oil and gas industry. The oil and gas industry, including the offshore, has the unique ability, and opportunity, to innovate *and* to scale technological solutions that lead to a lower carbon future. Globally and at home, far too many people still do not have functional access to electricity and energy demand is only going to rise²⁵. The energy transition must be made in a way that increases the access, affordability, and reliability of energy for everyone.

The offshore sector is continuously finding ways to shrink its already smaller environmental footprint, and these technologies and innovations can benefit other sectors. Whether you are talking about multi-billion dollar companies traditionally focused on oil and gas developing and investing in offshore wind equipment manufacturing and building renewable energy incubators, the deployment of electric remotely operated vehicles (ROVs) that were developed for the oil and gas industry to monitor offshore wind facilities, or the incorporation of virtual and augmented reality into worker training to reduce risk and the number of physical trips via boat or helicopter offshore, the offshore oil and gas industry is driving efficiency and reducing emissions in a way that will strengthen an energy transition.

The offshore oil and gas industry helped build the first U.S. offshore wind farm offshore Block Island, Rhode Island and is currently involved in wind projects up and down the Atlantic Coast. Block Island showed that the synergy between offshore oil, gas, and wind in finding energy solutions should not be discounted. Limiting the health and outlook for the offshore oil and gas industry would remove a key source of engineering expertise, not to mention R&D funding, that could find, scale, and deploy the solutions to many of the technical challenges currently associated with the renewable energy production.

In summary, there is nothing to suggest that the current system for federal offshore leasing is not working to best benefit the public, the government, and Americans throughout the country. The federal offshore fiscal system, through the use of auction-style bonus bids, ensures that the government and the American taxpayer continue to receive fair market value. Any changes to leasing and fiscal terms would likely impact the level of bonus bids and the overall competitiveness of the U.S. offshore region. The U.S. offshore is a region that competes with other offshore regions throughout the world. The U.S. offshore has been able to effectively compete with other regions based upon the current system that is in place. With more than \$120 billion flowing to the federal treasury since 2000, supporting vital funding for the LWCF, urban parks and national parks, and with more than 300,000 jobs supported annually, producing the lowest carbon barrels, among other factors, there is little to no support or justification for significant changes to the federal offshore oil and gas leasing program. Adverse changes to U.S. offshore federal oil and gas leasing could jeopardize the tremendous positive benefits providing by offshore production and result in a shift in those benefits to other regions of the world, all to the detriment of U.S. employment, economic, energy, national and environmental security. In order to retain these important benefits, Interior should move promptly to proceed with offshore leasing under the 2017-2022 program and complete development of the 2022-2027 in a timely manner.

NOIA stands ready and willing to work with the Department as the Biden Administration

²⁵ https://www.realclearenergy.org/articles/2019/09/11/no_need_for_energy_poverty_110474.html



and Secretary Haaland and her team evaluate the federal leasing program. Should the Department decide it would like to make improvements, we are happy to discuss those details and proposals as we all continue to find the best path forward for taxpayers, stakeholders, impacted communities, and energy consumers. We all have a stake in getting this right.

Very respectfully,

A handwritten signature in black ink, appearing to read "Erik Milito".

Erik Milito
President
National Ocean Industries Association

Attachments:

1. Article from the Environmental Law Institute by Erik Milito titled "Moving on Out"
2. Study by the Energy and Industrial Advisory Partners titled "The Economic Impacts of the Gulf of Mexico Oil and Natural Gas Industry"