May 20, 2020

The Honorable Donald J. Trump
President
The White House
1600 Pennsylvania Ave. NW
Washington, DC 20500

Dear Mr. President:

Thank you for your continued leadership in responding to our current public health and economic crisis. While we appreciate your tactful leadership in recent OPEC Plus negotiations, securing historic production cuts to help stabilize global energy markets, demand erosion due to COVID-19 has taken an outsized toll on American energy producers. We write today to urge your attention to current conditions among domestic energy producers and call for broad and bold action to secure the domestic energy workforce, infrastructure, and, most importantly, the economic and environmental benefits supported by our great American energy sector.

Combined, our organizations represent the entire oil and gas industry operating in the Outer Continental Shelf. In the Gulf of Mexico alone, we produce 17% of domestic energy[1], support nearly 500,000 jobs and generate nearly $5 billion in federal revenue each year[2]. Under your leadership, we have produced at record levels contributing greatly to our American energy dominance and making our country a net exporter of energy.

However, due to COVID-19, at least $40 billion in capital expenditures have been cut across energy businesses—delaying, significantly reducing in size, or eliminating altogether important energy exploration and production projects that will help sustain your legacy of American energy dominance for the next generation. Importantly, these jeopardized investments directly support hundreds of small and mid-sized energy service companies and tens of thousands of employees who live and work throughout the working coast of the Gulf of Mexico. At this time, nearly half of oil businesses in Louisiana alone are projecting bankruptcy[3]. Texas companies are experiencing similar challenges.

The benefits of Gulf energy production are not just economic. As you know, energy produced in the outer continental shelf has generated over $4.4 billion for the Land and Water Conservation Fund[4], supporting conservation of our great American public lands and outdoor recreation

[1] https://www.eia.gov/special/gulf_of_mexico/
[2] https://www.boem.gov/sites/default/files/oil-and-gas-energy-program/Leasing/Five-Year-Program/2017-2022/2017-2022-OCS-Oil-and-Gas-Leasing-PFP.pdf
[3] https://www.theadvocate.com/baton_rouge/news/coronavirus/article_91b4dee4-8edf-11ea-86f1-4bd4bd6c6bfb.html
[4] https://www.doi.gov/pressreleases/secretary-bernhardt-announces-227-million-state-outdoor-recreation-and-conservation

facilities across our country. These conservation and recreation activities alone have contributed $51 billion to the economy and 880,000 jobs[5]. Importantly for the Gulf region, offshore energy revenues help combat coastal land loss, harden our communities from catastrophic hurricanes, and support wetland restoration under the Gulf of Mexico Energy Security Act (GOMESA). Simply stated, energy exploration and production are the lifeblood of these coastal communities, literally, and it is all at risk.

Last month, we wrote to you to urge specific actions that would help alleviate some of the pressure our businesses are facing. Since that letter was sent, significant volumes of production are shut in due to ongoing market conditions and lack of storage. These effects risk our national security and increase dependence on foreign oil. Importantly, shutting in production offshore presents a distinct challenge compared to onshore. In many instances, especially in marginal and late-life fields, offshore shut in production will never return, permanently undermining the economic vitality of the Gulf Coast. While prices may have rebounded by some fraction, the market is still massively oversupplied, storage is filled up, and 18.8 million barrels of Saudi oil are scheduled to arrive on US shores this month[6], likely accelerating our challenges.

While we appreciate your efforts to negotiate with the Kingdom of Saudi Arabia and OPEC producers, the need for action here at home on other measures to help the industry remains.

1) **We need broad-based royalty relief:**

Our operators have been working diligently to examine and craft applications for federal royalty relief on a case-by-case basis but continue to encounter roadblocks due to the extremely narrow and restrictive nature of the current policy, which binds the regulating agency from meaningful action. The April 30, 2020 guidance issued by the Bureau of Safety and Environment Enforcement (BSEE) thereby has the effect of placing new and untested conditions upon any relief. The current policy will not provide the relief needed, regardless of BSEE's efforts to make the process more efficient.

One of the most impactful ways to help protect our American energy industry is by directing the Department of the Interior to eliminate or reduce federal royalties paid by Gulf producers on all producing leases during this period of crisis. Like past royalty relief programs, this relief would be tied to published price thresholds. When the price of oil and natural gas meet or exceed the thresholds, royalties are paid. This will help give the operators the confidence they need to continue to explore, produce and replace the oil and gas needed to keep our economy moving and our supplies secure.

While a reduction in federal royalties may reduce revenue in the short term, a broad-based royalty reduction anchored to a price threshold is temporary and will yield much more significant long-term benefit in the form of a more reliable and resilient American energy supply and infrastructure. Any broad-based royalty reduction at current price conditions will be significantly

[5] https://www.doi.gov/lwcf/about/overview
[6] https://www.saudiaramco.com/en/news-media/news/2020/breaking-record

less immediate term cost than any royalty relief provided under higher commodity price environments. Rather, a temporary royalty reduction will help companies preserve capital necessary to more fully produce current leases in the future and likely result in much more significant bonus bids and rentals for any future leases, all generating billions in revenue for the federal taxpayer for years to come. Some in our industry may also benefit from royalty *deferral* as they seek to preserve capital.

2) **We need lease extensions, Suspensions of Operation, Suspensions of Production and asset retirement obligation deferrals as streamlined and expeditiously as possible.**

Given the drastic shut-ins of production occurring across the Gulf, the ability of the Department of Interior to grant lease extensions, Suspensions of Operation (SOO), Suspensions of Production (SOPs), and asset retirement obligations (ARO) deferrals are of utmost importance as well. Leases that are undrilled and within their primary term will expire without suspension of those terms. Leases that have commercial discoveries or have been producing need to be suspended until market conditions change and demand for offshore production is re-established. Previous Administrations have provided lease extensions for different scenarios in the past.

Decommissioning deferrals will also provide additional flexibility for operators to delay expenses until economics recover. These actions will allow American energy producers to avoid adding unneeded energy to the market and also avoid massive new expenditures at a time when they are simply trying to keep men and women across the country employed and balance sheets as stable as possible.

With SOOs and SOPs, however, time remains critically important. We hope you will encourage the Department of Interior to look for ways to significantly expedite the consideration of these applications. A multi-month process, quite simply, will be too-little-too-late for America's energy sector.

We must act here at home or else continue to see the gains of the past few years slip away. As you consider tax cuts and other financial incentives to help our economy recover from COVID-19, we consider these forms of relief to be equally important, comparatively simple, and especially relevant to American energy dominance.

Thank you for your consideration of these requests and we look forward to discussing further.

Sincerely,

Tyler Gray
President, General Counsel
Louisiana Mid-Continent Oil & Gas Association

Erik Millito
President
National Ocean Industries Association

Gifford Briggs
President
Louisiana Oil & Gas Association

Kevin Bruce
Executive Director
Gulf Energy Alliance

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The Honorable Mike Pence, Vice President of the United States
The Honorable David Bernhardt, Secretary of Interior
The Honorable Dan Brouillette, Secretary of Energy
The Honorable Kate MacGregor, Deputy Secretary of Interior
The Honorable Bill Cassidy, U.S. Senator
The Honorable John Kennedy, U.S. Senator
The Honorable Steve Scalise, U.S. Representative
The Honorable Cedric Richmond, U.S. Representative
The Honorable Ralph Abraham, U.S. Representative
The Honorable Garret Graves, U.S. Representative
The Honorable Mike Johnson, U.S. Representative
The Honorable Clay Higgins, U.S. Representative